



# 1998 Comprehensive Statement

ON POSTAL OPERATIONS

UNITED STATES POSTAL SERVICE

# Comprehensive Statement Contents

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CHAPTER ONE

# Compliance with Statutory Policies

## A. Fundamental Service to the People (39 U.S.C. 101 (a))

### 1 GENERAL

On May 16, William J. Henderson became the 71st Postmaster General (PMG) of the United States. Mr. Henderson is the fifth career postal employee to serve as Postmaster General, replacing Marvin Runyon, who returned to the private sector after six successful years.

Mr. Henderson pledged to continue the recent success of the Postal Service with a focus on building customer value by broadening the traditional performance focus to include people and public policy.

During 1998, the Postal Service continued to deliver record-breaking service and revenue performance. Independently measured delivery scores continued to rise, with 93 percent of local First-Class Mail delivered on time. With net income of \$550 million we had an outstanding year in 1998. This followed our successes of almost \$1.3 billion in 1997 and nearly \$1.6 billion in 1996.

Expanding focus beyond performance, Mr. Henderson wants the Postal Service to be a place where employees take pride and ownership in their work and where they feel they are a part of the successes.

In the area of public policy, the Postal Service has the responsibility as a major public institution to carry out a historic and vital national mission. The challenge is to provide universal service at affordable prices while meeting the changing customer demands in a competitive market place. The Postal Service must play an active role in the public debate on how to best address changing and emerging mailing needs of the nation.

The Postal Service remains committed to providing even greater benefits to its customers in 1999. Effective January 10, 1999, the one-cent increase in the first-ounce rate for single-piece letters will be the smallest percentage rate increase since the reorganization of the Postal Service in 1970. This marks the third consecutive time that the increase for the First-Class Mail letter subclass as a whole has successfully been kept at or below the rate of inflation, representing essentially ten years of favorable rate treatment for First-Class Mail letter customers. The average increase for all classes of domestic mail is 2.9 percent, which is less than one-third the rate of inflation over the four-year period since the last rate increase.

This translates into an immediate benefit for our customers. Our July 1997 general rate filing called for an average increase less than half the rate of inflation since the last general rate adjustment in January 1995. The proposed one-cent increase in the First-Class letter rate is the lowest in the 27-year history of the Postal Service. The implementation of new rates on January 10, 1999, will mark four years since the last general rate adjustment, the longest period in the Postal Service's history.

### 2 QUALITY

In 1998, the Postal Service continued to build on the foundation laid in prior years and made further progress in the construction and operation of *CustomerPerfect!™*, our Malcolm Baldrige National Quality Award-based management system.

*CustomerPerfect!* has provided the management system framework for the Postal Service's record service and financial performance. This year has resulted in significant progress at the corporate level. At the same time, the application of *CustomerPerfect!* principles and methodologies in field operations continues to advance. Service performance set another record of 94 and 93 percent on-time delivery for overnight mail in the third and fourth quarters, respectively (as measured through the External First-Class Measurement System).

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### a. The Management Cycle

The Management Cycle (Establish, Deploy, Implement, Review) completed its fourth cycle since *CustomerPerfect!* was launched in September 1995 and continued to undergo revisions to improve its effectiveness. These changes are discussed below.

The Establish process further refined the use of data in setting targets. Additional information regarding Postal Service performance and the challenges facing the organization was shared with the Leadership Team and resulted in the identification of new targets and new indicator development priorities. New Voice of the Customer indicators included improved performance in on-time delivery of advertising mail and remittance mail and the development of a measure for consistency of delivery. Voice of the Employee proficiency targets were set for automated operations, retail, and bulk mail entry units. Indicator development was initiated for other plant operations, rural delivery operations, and sales. A set of workplace environment indicators was also developed and deployed to the field. Finally, in Voice of the Business, targets for capital expenses and for increases in revenue from existing products and services were added to the existing targets for net income, cost reductions, and revenue from new products and services. The final set of improvement targets and indicators may be found in the Annual Performance Plan.

The National Deployment Team, led by vice presidents Craig Wade and John Ward, made several improvements to the Deploy process. The timing of discussions of all three voices were synchronized, allowing field managers to consider what was needed to achieve customer, employee, and business targets. Specific resource requests from the field were considered. Catchball meetings between Area and Headquarters contributed to a mutual understanding of the challenges facing the Postal Service, and the process was concluded in a timely manner. As a result of catchball, some targets were adjusted and additional resources were identified and allocated to achieve key targets.

The Implement process is being improved through better, more effective management of major programs (for example, Delivery Confirmation, mail transport equipment service centers, Priority Mail Processing Centers, tray management, Point of Service One, Corporate Call Management, administrative office infrastructure, Year 2000, Desktop Post Office, and Delivery Redesign), as well as improved process management and quality improvement approaches. These enhancements will be discussed in greater detail below.

The Review process continues to undergo changes to improve its effectiveness. Regular reviews of progress in achieving *CustomerPerfect!* targets occur down to the Performance Cluster level, and in many areas include reviews of individual plants and post offices. In addition, the Management Committee reviews on a quarterly basis the status of major programs that are critical to the future success of the Postal Service.

### b. Integration Team and the Baldrige Assessment

The Integration Team, led by Deputy Postmaster General Mike Coughlin, continued to initiate significant improvements to the overall management system. It also played a key role in the Baldrige Assessment requested by former Postmaster General Marvin Runyon. After three years of constructing and operating *CustomerPerfect!*, Mr. Runyon decided the time had come to get another objective, external assessment against the current Baldrige criteria. This second assessment was launched in November 1997. The Management Committee approved an approach that would emulate the "real" Baldrige process. This task required the documentation of the Postal Service's national management system approaches in an "assessment document." A team representing every officer in the Postal Service was convened and participated in constructing a 50-page Assessment Document that described the *CustomerPerfect!* management system as well as our most significant business results. This document was reviewed by an external team of experienced Baldrige examiners and set the stage for the site visits they conducted. Site visits were held at Headquarters, all Area offices, and 22 Performance Clusters to clarify the national approaches described in the assessment document and verify their deployment and the reported business results. Over 120 Postal facilities were visited and over 1,250 employees were interviewed.

The feedback from the assessment was presented to all Officers in a two-day workshop. All Officers were provided an opportunity to evaluate the Postal Service's national approaches individually, discuss different perspectives with their peers, and, finally, hear from the examiners themselves. The Officers reached consensus on the five most important areas requiring immediate attention. These were:



- Improve communication and relationships with employees and the bargaining units that represent them.
- Define human resource implications of our strategic business objectives and develop human resource plans accordingly.
- Standardize our core processes across all operations, making sure to leverage those approaches that are most effective in helping us to meet our performance objectives.
- Develop a strategy for identifying, collecting, and using comparative data with which to evaluate our performance.
- Affirm the identity of the Postal Service to ensure that there is no ambiguity of purpose or direction.

These priorities were endorsed by new Postmaster General William J. Henderson and became the centerpiece of his first Leadership Team meeting on May 27, 1998. Subsequently, Management Committee Sponsors and Officer Leaders were appointed for each of the five management system priorities. They are:

- Initiative-Management Committee Sponsor/Leader
- Workplace Relations-Potter/Potter
- HR Strategy-Potter/Maguire
- Process Management-Lewis/McComb
- Comparative Information-Kane/Lorentz
- Alignment of Direction-Henderson/Management Committee

Specific plans to respond effectively to each of these initiatives are currently being developed. In addition to the "Big 5" initiatives, the Baldrige Assessment identified numerous other "opportunities for improvement." The Integration Team is in the process of building plans to address the most crucial of these "opportunities." The Quality Department is supporting Integration Team members in developing their individual plans as well as constructing the framework to integrate and track all of these initiatives.

#### **c. PMG Excellence Award**

The PMG Excellence Award was established last year to provide national recognition for teams who had done the best job of applying our process management and quality improvement toolsets resulting in significant contributions to our VOC, VOB, and/or VOE goals. In this, the second year of the award, 44 projects were nominated (22 in each of the Process Management and Quality Improvement categories). All Postal Service Officers participated

in reviewing and evaluating the nominations resulting in the identification of three finalists in each category. Postmaster General Henderson will select the best project from among the finalists in both categories, and the winners will be announced at an event being planned in Washington, DC, in February 1999. The finalists for the PMG Excellence Awards and a brief description of their work and results are shown below.

#### **1. Process Management:**

*a. The Western Area, Billings, MT—P&DC Function 1 Improvement Team.* This team was tasked with increasing productivity and machine utilization and reducing delayed mail volumes from the SPBS operation. The team used the process management methodology to document the process. From the indicators, data was gathered and analyzed to find improvement opportunities. Through this effort, productivity was increased by 80 pieces per hour for a projected annualized saving of over \$600,000. Bid positions were realigned and the preventive maintenance window changed to increase machine utilization. Delayed volumes have been reduced 80 to 100% to downstream operations. The improved process is now being replicated throughout the District.

*b. The Headquarters Purchasing Department—Supplying Materials Team.* The team's task was to "improve productivity and customer satisfaction while decreasing the cost of supplying materials to postal operations." Data was gathered to validate improvement opportunities discovered using cause and effect diagrams. Countermeasures were implemented and improvements documented. The success was replicated in other material supply sites. From 1997 to date, users of the Supplying Materials process have saved the Postal Service \$1.6 million, improved productivity, and significantly increased customer satisfaction.

*c. The Great Lakes Area, Royal Oak, MI—Internal Operating Plan Team.* Anticipating moving to a new facility, this cross-functional team documented the entire FCM distribution process. Additionally, they have to improve the DPS process to allow mail receipt by the AOs by 7:00 a.m. With the assistance of the process owners, the team documented every process and made improvements to some for transplanting to the new facility. With the data from the indicators, they identified

opportunities for improvement and used control charts to stabilize the DPS process at a level to ensure earlier mail delivery to the AOs post offices. The projected operational savings are \$393,800.

## 2. Quality Improvement Story:

*a. The Allegheny Area, Area Office—Priority Mail Improvement Team.* This team, which consisted of process owners from the entire Allegheny area, improved the on-time delivery of Priority Mail. When the team started, Area performance was averaging about 78% on-time but needed to improve significantly to achieve the Area target of 85.9%. The team completed process documentation and initiated data gathering on 18 process indicators. This process data was analyzed to determine root causes for failures and then countermeasures were implemented. These actions resulted in an area-wide increase in on-time delivery performance to 86.7%, exceeding the Area target by nearly 1%.

*b. The Pacific Area, Sacramento District—RBCS Improvement Team.* This team focused on reducing the RBCS leakage rate, which exceeded 10%. After documenting the RBCS process, the team gathered and analyzed data through the use of control charts. After identifying and eliminating special causes of variation, the team used a Pareto chart to identify the largest contributor to common cause variation, which turned out to be OSS POSTNET Verifier errors. Although the team set a target of 15% reduction in errors, the countermeasures implemented by the team actually reduced the errors by 39%. These improvements were a large contributor to the District, which achieved a 5.1% leakage rate, well below the 7% Area target.

*c. The Western Area, Denver District—DIA Inbound Mailflow Team.* This team partnered with United Airlines, our transportation supplier for 58% of mail destinating in Denver, CO. The on-time delivery of Priority Mail and First-Class 2- and 3-day mail was well below the corporate target of 85%. The team focused on improving the process, from the airport “block” time to receipt at the Denver P&DC. The team first documented the process, including indicators at appropriate points of the process. Verified root causes were established and addressed with countermeasures that drove service performance in the fourth quarter, 1998 to 87.6% (a 14 percentage point increase over Same Period Last Year (SPLY)). In addition, the anticipated annual savings from the team’s efforts, assuming this performance is maintained, are over \$2 million for United Airlines, and over \$600,000 for the

Postal Service. Moreover, due to the success of this project and the benefits that were generated, the team has decided to continue working together to address the Outbound Mail flow from DIA.

## d. Enabling Processes

During 1998, the Quality Department supported an aggressive expansion of process management within the Enabling Processes. In addition to the 10 processes that began in 1997, 45 new processes began applying the methodology. The vice presidents initiated much of this growth within their functions, starting process management efforts in multiple processes. Nearly all of the vice presidents for the Enabling Processes are included at this point. Concrete, measurable improvements are not yet common, although satisfaction with the methodology remains high.

The changes being made to the national approach to process management in response to the Baldrige Assessment will also have an impact on the Enabling Processes in 1999. The effort will be re-focused as part of the Baldrige key area number three.

## 3 BOARD OF GOVERNORS

As the governing body of the Postal Service, the 11-member Board of Governors has responsibilities comparable to those of a board of directors of a publicly owned corporation. The Board is composed of nine Governors appointed by the President of the United States with the advice and consent of the Senate. Each Governor is appointed to a nine-year term or the remainder of an unexpired term that may be vacated by death or resignation of a sitting Governor. The terms are staggered so that one Governor’s term expires every December 8, though a Governor whose term has expired may continue to sit on the Board with full authority for up to one year until a successor has been appointed. The Governors appoint the Postmaster General, who serves at their pleasure without a specific term of office. The Governors, together with the Postmaster General, appoint the Deputy Postmaster General (39 U.S.C. 202).

The Governors represent the public generally, and no more than five members may be adherents of the same political party. Each Governor’s annual salary is \$30,000, plus an additional \$300 per meeting day, for not more than 42 days each year. All Governors also receive reimbursement for travel to attend the meetings and other functions

where they represent the Postal Service. The Board meets monthly, and the Chairman is elected at the Annual Meeting in January. The Chairman is elected by the Governors from among all members of the Board, and the Vice Chairman is elected by the full Board.

The Board directs the exercise of the powers of the Postal Service. It establishes policies, basic objectives, and long-range goals for the Postal Service in accordance with Title 39 of the United States Code. The Board approves all capital investments of \$10 million or more. Except for those powers specifically vested in the Governors, the Board may delegate the authority vested in it by statute to the Postmaster General under such terms, conditions, and limitations, including the power of redelegation, as it deems desirable (39 U.S.C. 402). The Governors are authorized to establish reasonable and equitable classes of mail and reasonable and equitable rates of postage and fees for postal service (39 U.S.C. 3621). A specific power reserved by statute for the Governors alone is to approve, allow under protest, reject, or, by unanimous written decision, modify recommended decisions of the Postal Rate Commission on postal rate and mail classification changes (39 U.S.C. 3625).

During 1998, the Board held regular monthly meetings for a total of 24 days. Eight of the regular monthly meetings were held in Washington, DC, and four in cities across the country chosen to give the Board members an opportunity to meet mailers and employees, hear their concerns, and, where possible, visit postal operations and observe new technology. The Governors held special meetings in April and May relative to the search and ultimate selection of William J. Henderson as the 71st Postmaster General.

The Board has four standing committees: Audit, Capital Projects, Compensation, and Strategic Planning. The committees hold regularly scheduled meetings during the year to consider matters within their areas of responsibility and refer items to the full Board for consideration. A number of these meetings were held prior to the scheduled Board meetings to facilitate action on committee activities.

In October 1997, the Board approved the Postal Rate Commission's Recommended Decision on the Bulk Parcel Return Service and Shipper Paid Forwarding and set effective dates for implementation of each. It also approved the 1998 Operating Budget and the Five-Year Capital Investment Plan for 1998–2002.

In November, the Governors approved the 1997 performance awards for the Office of the Inspector General. The Board approved the 1998 Financing Plan and funding for Phase 2 of the Associate Office Infrastructure.

In December, the Board approved the 1997 audited financial statements, the 1997 Annual Report of the Postmaster General, and the 1999 Appropriations Request to Congress. It also approved funding requests for the Boise, ID, and Sioux Falls, SD, Processing & Distribution Centers, additional Advanced Facer Cancelers, and barcode readers for the Flat Sorting Machine 1000.

In January 1998, the Board received the results of the Diversity Study commissioned by the Board and conducted by Aguirre International. The Governors approved the Inspector General's Five-Year Strategic Plan. The Board approved the annual report to Congress on compliance with the Government in the Sunshine Act. The Board also approved funding requests for the Tulsa, OK, Processing & Distribution Center and leased space for the Office of the Inspector General. The Governors elected Sam Winters as Chairman of the Board for 1998 and Einar Dyhrkopp as Vice Chairman.

In February, the Governors approved the 1998 Performance Award Plan for the Office of the Inspector General. The Board approved the preliminary 1999 Annual Performance Plan in compliance with the Government Performance and Results Act (GPRA) of 1993. The Board also approved funding for the Royal Oak, MI, and Kansas City, MO, Processing & Distribution Centers, linerless label applicators, and stacker modules for the delivery barcode sorters.

In March, the Board was briefed on the Alternative Dispute Resolution/REDRESS program, designed to improve employee communications and workplace relationships, which was being tested in the Postal Service and planned for expansion. The Board approved the open issues relative to the 1998 EVA Incentive Performance Plan.

In April, the Board voted to allow the Experimental First-Class and Priority Mail Small Parcel Automation Rate Category to expire. The Board approved an amendment to its bylaws to conform to the statutory requirement of Public Law 105-41, which directed the Postal Service to issue a Breast Cancer Research Semipostal Stamp. The Governors voted to approve a 40-cent rate of postage for the Breast Cancer Research Semipostal Stamp.

In May, the Board approved funding for the Minneapolis, MN, Metro Hub facility and Delivery Distribution Centers at Gilbert and Phoenix, AZ. It also approved additional funding for Stage One of the Point of Service (POS) project. On May 12, the Governors held a special meeting, at which time they selected William J. Henderson as the 71st Postmaster General.

In June, the Board approved a phased-in approach for Corporate Call Management and funding for the next generation Flats Sorting Machine.

In July, the Governors generally accepted the Postal Rate Commission's Recommended Decision in the Omnibus Rate Case R97-1, and the Board set an effective date of January 10, 1999, for implementation of the new rates. The Board approved a filing with the Commission on an experimental rate for Mailing Online. The Board also approved a resolution that set an effective date for the Breast Cancer Research Semipostal Stamp.

In August, the Board approved funding requests for truck tractors, Small Parcel and Bundle Sorters, self-service vending equipment, and Forwarding Control Systems for the Computerized Forwarding System. It also received an in-depth presentation on the budget strategy and process for FY 1999.

In September, the Board approved the Operating Budget, Capital Investment Plan, and Financing Plan for FY 99. The Governors approved the FY 99 Budget of the Postal Rate Commission. The Board approved the final 1999 Annual Performance Plan in accordance with the Government Performance and Results Act of 1993.

During the year, the Board also considered and approved a number of additional capital investment proposals costing \$10 million or more. Funding was approved for Remote Computer Reader (RCR) Handwriting Recognition, Flat Mail Optical Character Reader, Integrated Buffer System R&D, Identification Code Sort, Output Subsystems for the delivery barcode sorters and the Delivery Confirmation Infrastructure, as well as the restart of the Tray Management System (TMS).

While Governor Bert H. Mackie's term expired on December 8, 1997, he was on his one-year extension pending qualification of a successor and continued to serve as a member of the Board throughout 1998.

## 4 STRATEGIC PLANNING

### a. The Strategic Planning Process

The Strategic Plan of the Postal Service establishes priorities among investments in business initiatives, programs to reduce costs, and programs to improve customer service within the framework of a broad strategic course set by the leadership in carrying out the mission of the institution. In developing organization-wide planning process approaches, and in integrating and aligning the strategic development and planning of Postal Service business units and functions, the Office of Strategic Planning supports the Management Committee as it makes decisions to establish goals and deploy resources in the planning phases of the *CustomerPerfect!* process.

Strategic planning links the key functions in the *CustomerPerfect!* management system to the three goals that guide the Postal Service—those of the Voice of the Customer, the Voice of the Employee, and the Voice of the Business. The strategic planning process establishes a method for senior management to obtain input for shaping the goals by developing a business environmental analysis and a systematic analysis of strengths, problems, opportunities, and threats. These analyses, in coordination with the program plans and strategies of the various postal functions such as operations and marketing, serve as a basis for development of the five-year strategic plan. Strategic planning also serves as a tool for the management of the institutional knowledge collected from customers and stakeholders, and the data resident in the Postal Service's technology network.

In September 1997, the Postal Service presented to the President of the United States and the Congress its Five-Year Strategic Plan, 1998–2002, in compliance with the 1993 GPRA. This plan was developed under the guidance of the Strategic Planning Committee of the Board of Governors and the Management Committee and was formally adopted by the Board of Governors. Although the Postal Service has been developing five-year plans since 1982, the Strategic Plan for 1998–2002 was the first to be published under the requirements of the GPRA. It is the first five-year plan to contain detailed discussions of the goals and subgoals of the Postal Service, the measures that will be used to assess progress toward their achievement, the specific performance targets, and the detailed program strategies.



To establish the cycle of planning and development of plans to implement strategy, the Office of Strategic Planning also coordinated the development of the first Annual Performance Plan for the Postal Service, a preliminary version of which was incorporated as an Appendix to the 1997 Comprehensive Statement. The final Annual Performance Plan for FY 99 was formally presented to Congress in September 1998. The second preliminary Annual Performance Plan (for FY 2000) is Chapter 4 of this Comprehensive Statement. Next year, the Postal Service will not only be developing a Performance Plan for 2001 but will also be supporting preparation of the first Annual Performance Report required by the GPRA statute.

#### **b. The Five-Year Strategic Plan, 1998–2002**

The Postal Service's Five-Year Strategic Plan is the most detailed and comprehensive five-year plan the Postal Service has published. The Plan describes the mission of the Postal Service to provide prompt, reliable, and efficient universal service at reasonable rates:

The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. [Title 39, U.S. Code, Sec. 101(a).]

To fulfill this mission, the Postal Service's goals are to satisfy the customer, to improve employee and organizational effectiveness, and to improve financial performance. By categorizing these corporate goals as three "voices," the Postal Service is emphasizing that it is listening to, driven by, and focused on data gathered from the marketplace and from employees.

The Voice of the Customer goal is to improve customer satisfaction by offering superior customer value in every market and customer segment that we target. The Voice of the Employee goal is to improve employee and organizational effectiveness by having the right people in the right places with the right tools at the right time to provide consistently superior customer value in a dynamic market. The Voice of the Business goal is to improve financial performance to ensure commercial viability as a service provider for the worldwide movement of messages, merchandise, and money.

These concepts define a growth strategy. The core concept is to improve service and to manage costs to drive growth. This means the Postal Service

seeks to grow by continuing to expand its Priority Mail and package businesses (to encourage direct marketing that uses both First-Class and advertising mail) and international mail; defend its core businesses from both traditional competitors and new electronic competitors; and create new and enhanced products and services.

To achieve these goals, the Postal Service must address a number of significant challenges. Many of these challenges involve external factors, such as restrictive federal regulations, advances in information technologies, and new competition. As consumers become more sophisticated and technological innovations become increasingly accessible to them, significant volumes of mail become potential targets for electronic diversion. In the emerging electronic age, in which some segments of the population are changing the way they communicate and do business, the Postal Service must continue to respond to new customer requirements to meet the mandate of its mission. Additionally, the outcome of proposed legislative reform could alter the fundamental regulatory framework that structures the Postal Service's current operation.

To fulfill its mission and achieve its goals, the Postal Service has developed a four-part Customer Value Strategy:

- Commit to customer service excellence
- Manage costs aggressively
- Become a 21st-century growth company
- Create unique customer value

Within the framework of this vision and the *CustomerPerfect!* management cycle, the Postal Service is continuing to develop subgoals, indicators, and targets for measuring progress along the path to growth and improvement.

#### **c. The Annual Performance Plan**

As required by GPRA, the second Annual Performance Plan for the Postal Service has been incorporated as Chapter 4 of this Comprehensive Statement. This Performance Plan describes the specific subgoals and the preliminary indicators and targets developed to measure performance for FY 2000, which begins on October 1, 1999.

With the goals serving as broad statements of direction—for example, "Improve customer satisfaction"—subgoals narrow the focus to specific performance areas within each goal—for instance, "provide timely delivery." Indicators are measures of performance for the subgoals, such as "percent

on-time, overnight delivery of First-Class Mail as measured by the External First-Class Measurement System, ExFC.” Targets are the specific levels of performance to be achieved on the indicator—for example, “93 percent on time.”

The targets are set for each year after extensive consultation that takes place during the Deploy phase of the management cycle, which is completed near the end of the previous fiscal year. Thus, the targets for FY 2000 set forth in the current Performance Plan are still subject to change. A final Performance Plan will be submitted to the Congress in September 1999.

In February 2000, the Postal Service will also publish the results of the first Annual Performance Report required by the GPRA statute. This Performance Report will assess the level of success in achievement of the targets in the final FY 99 Performance Plan.

#### **d. Benchmarking the Strategic Planning Process**

To ensure that the Postal Service’s strategic planning process and implementation of the various GPRA requirements are the best they can be, the Office of Strategic Planning has conducted a series of informational seminars with other government agencies to identify best practices in both the process of strategic planning and compliance with the law. Through the Office of Strategic Planning, the Postal Service also participated with 25 other government departments and agencies in the National Academy of Public Administration’s Performance Consortium. This group explored the GPRA requirements and their fulfillment by way of presentations from key congressional staff, the General Accounting Office, the Office of Management and Budget, and through shared experiences.

These activities have been part of a much broader effort by the Office of Strategic Planning to benchmark its performance against private industry and the public sector by identifying best practices in planning and in strategic planning processes, including the alignment of strategic planning with knowledge management. These activities have included interviews and discussions with leading industrial analysts and corporate executives, and review of Baldrige Award-winning processes.

#### **e. Communicating the Strategic Plan**

The Office of Strategic Planning has also organized under the guidance of the Deputy Postmaster General a team of about 45 postal executives, representing both field and Headquarters functions, to achieve broad-based management involvement in the strategic planning process. Through Strategy, Action, Involvement, and Leadership, this SAIL Team provides postal leadership with ongoing assessments of the organization’s strengths, problems, opportunities, and threats. This team convened in January, April, August, and November 1997 and in February, June, and September 1998 to hear the views of senior postal executives on strategic directions for the Postal Service, to learn from leading authors and analysts on industrial policies, and to share views and comments on the Postal Service’s Strategic Plan.

Another communication initiative was a pilot project concerning planning and communication created in the Baltimore District by the District Manager. The goal was to build learning around the concept of “taking strategy to the shop floor.” In this pilot project, coordinated by the Office of Strategic Planning, first-line supervisors developed weekly presentations on Plan goals and objectives for their respective employees.

The Office of Strategic Planning also conducted focus group research to better understand employee knowledge and interpretation of the Plan. Ten focus group discussions and 20 individual in-depth interviews were conducted with Postal employees to assess the knowledge level of employees with respect to the Strategic Plan and to learn how employees interpret the Strategic Plan and their role with respect to it. Craft and management employees were interviewed in separate groups, and executives were interviewed by telephone. The results indicated high awareness of the three Voice goals. But the research also emphasized a need to share the future direction in plain English.

During the process that led to development of the Five-Year Strategic Plan, the Postal Service engaged in consultations with stakeholders, including employees, unions, management associations, customers, Congress, other federal agencies, and the National Performance Review. Using a wide range of media, including letters, Customer Advisory Councils, trade publications, the *Federal Register*, and the World Wide Web, comments were gathered from a broad spectrum of customers, from individuals to large mailers. The comments and data collected were incorporated into the Strategic Plan.

A copy of the Strategic Plan has been placed on the public Web page, and thousands of copies of the plan have been distributed to employees, government agencies, and interested customers. Every Postal Service employee has access to either the full Plan or a specially prepared summary outlining the mission, goals, subgoals, indicators, and targets for 1998–2002. To achieve the goals, it is vital that all employees know what those goals are and what their roles will be in achieving them.

#### **f. Continuing the Planning Process**

In the coming year, under the leadership of the Vice President of Strategic Planning, the Office of Strategic Planning will continue to refine and improve the strategic planning process as this year's performance is reviewed and next year's Performance Plan under the Government Performance and Results Act is developed.

As an outcome of the Baldrige Assessment completed by the Postal Service in 1998, the Office of Strategic Planning has identified eight areas in which to improve the strategic planning process, including:

- incorporating human resource capabilities into the planning process;
- engaging employees and employee organizations in the planning process;
- incorporating supplier and partner capabilities;
- incorporating customer requirements;
- addressing effectively the rapidly changing nature of key markets through the strategy development process;
- developing strategies and action plans to address key human resource-related challenges;
- developing action plans to address the defined strategies; and
- developing strategies to mitigate risks in the correspondence and transactions market.

Appropriate cross-functional teams have been formed to develop suitable approaches for addressing each of these issues.

### **5 DIVERSITY**

As this country's largest employer, the Postal Service needs to create environments that capitalize on the diversity of its workforce. There is also a need to develop a sense of inclusiveness and common purpose. In response to these needs, the Board of Governors commissioned a study to evaluate and

assess the effectiveness of the Postal Service's diversity development program. Based on the findings and recommendations of this study, a corporate policy statement on diversity was developed and then issued in August 1998 to reinforce our commitment to diversity and specifically define diversity as it pertains to the Postal Service. Also in line with those findings and recommendations, a diversity development action plan has been prepared to promote the hiring of women and minorities; to improve recruitment, hiring, and promotion activities; and to develop indicators to measure the progress that is linked to this strategy. Some of the specific initiatives for FY 99 and beyond include organization-wide communication of the corporate diversity policy statement; accountability for managing diversity in the merit-evaluation for each postal executive; increased focus on underrepresented groups in the employee recruitment process; and expansion of corporate succession planning to promote entrance of underrepresented groups.

In addition, the Postal Service's Supplier Diversity Program will be expanded to include the training of local buying personnel; collection of data for measuring the success of the program over time; and improving subcontractor participation to include more women and minorities.

## **B. Service to Small or Rural Communities**

(39 U.S.C. 101(b))

In enacting the Postal Reorganization Act, it was the specific intent of Congress to ensure effective postal service to residents of both urban and rural communications. In providing the nation's mail service, the Postal Service has established delivery units, and rural and highway contract delivery.

At the end of 1998, 27,952 post offices, 5,661 classified stations and branches, 2,974 contract stations and branches, and 1,572 community post offices were in operation. In addition, 62,338 rural delivery routes served 27.4 million mail receptacles, an increase over last year of 2,786 and just over 1 million, respectively.

Effective March 16, 1998, the Postal Service imposed a moratorium on management-initiated post office closings and consolidations. With this moratorium, post offices will not be closed unless

no other reasonable choice is available. Some closings (and suspensions) may still be necessary if postmasters retire suddenly or catastrophic events such as a flood, fire, or earthquake occur. In these instances, closing an office or suspending its operations can be appropriate and necessary.

The Postal Service has invited the National Association of Postmasters of the United States and the National League of Postmasters of the United States to work with the Postal Service. Their representatives and the Postal Service are reviewing all recent and proposed post office closings and emergency suspensions to help determine appropriate courses of action.

During FY 98, the Postal Service closed or consolidated 79 post offices, 14 community post offices, and 1 classified station. These offices were in the process of being closed before the issuance of the moratorium and were thus allowed to continue through the closing process. There was only one appeal filed with the Postal Rate Commission, and it was affirmed.

## C. Employee Compensation and Career Advancement (39 U.S.C. 101 (c))

### 1 COLLECTIVE BARGAINING

The Postal Service began separate negotiations in late August 1998 with the American Postal Workers Union, AFL-CIO (APWU); the National Association of Letter Carriers, AFL-CIO (NALC); and the National Postal Mail Handlers Union, AFL-CIO (NPMHU) for successor collective bargaining agreements to those set to expire on November 20, 1998. All three unions, which together represent more than 663,000 employees, is the tenth round of national negotiations since the passage of the Postal Reorganization Act in 1970. Negotiations with postal unions cover a full range of topics involving wages, benefits, and conditions of employment. In this round of collective bargaining, the Postal Service has sought to address two major areas: economics and workplace relations. With each of the unions, the Postal Service was striving for settlements that allow the union membership to vote on the contract terms rather than having a third party make important decisions on the labor agreements.

Tentative agreements, which were reached in early December with the APWU and the NPMHU, have been sent to the respective union memberships for a ratification vote. The results of those votes will be known by mid- to late-January 1999. Talks with the NALC are continuing in an effort to achieve a negotiated settlement without recourse to the Postal Reorganization Act's dispute resolution procedures.

The collective bargaining agreement with the fourth major postal union, the National Rural Letter Carriers' Association (NRLCA), expires on November 20, 1999. Agreements between the Postal Service and several smaller bargaining units will also be expiring—for example, Information Service Centers (APWU) on January 20, 1999; Postal Police Officer (Fraternal Order of Police) on April 9, 1999; and the National Postal Professional Nurses (NPPN) on August 15, 1999.

In addition to pursuing changes in the collective bargaining agreements that will impact workplace relations, the Postal Service, starting in 1997, began working with the assistance of the Federal Mediation and Conciliation Service (FMCS) to mutually identify problems and achieve meaningful resolutions of disputes through quarterly summit meetings with the four major unions and the three management associations. Further, separate Summit efforts with the NALC and APWU have resulted in several successful joint initiatives to improve workplace relationships.

One such initiative is the USPS-NALC Revised Dispute Resolution Process, which was test implemented in 19 districts in April 1998. This process places increased authority and responsibility for resolution of grievances at the installation and district levels by eliminating a third grievance step at the Area level. The revised process establishes a Step B dispute resolution team, consisting of one management and one union representative, at the final, district-level step. Overall, the process changes represent a joint effort to resolve grievances more quickly and at the lowest possible level, to improve contract understanding and compliance, and to eliminate the need for repetitive grievances on matters which the parties have already resolved.

Another successful joint initiative has been the production of a USPS-NALC Joint Contract Administration Manual (JCAM). This document,



distributed to each delivery unit and district office, and also available electronically on the Postal Intranet, reflects the parties' understanding at the national level on proper application of many areas of the collective bargaining agreement. The JCAM is intended to be used as a guide for union and management representatives at all levels of the organization. The parties expect that the JCAM will facilitate resolution of workplace disputes through a better understanding of and increased compliance with the National Agreement.

With the APWU, strategies to address workplace relationships by focusing on the root causes of workplace disputes and to reduce the grievance backlog through the accelerated arbitration process continue to move forward. In May 1997 a Memorandum of Understanding (MOU) was signed to test two approaches to handling grievances—development of joint union/management teams at the area level and modification of the Step 3 grievance process designed for faster resolution of problems. In June 1998 a second MOU was signed. It addresses the continued high volume of cases pending arbitration by implementing several scheduling strategies. Since these strategies were implemented, 20,604 cases pending arbitration have been finalized either through settlement, withdrawal, or arbitration decision.

Also in May 1998, the Postal Service began meeting with the NPMHU and FMCS to identify workplace relations issues and potential solutions. Data is being gathered for analysis and discussion of future strategies.

In addition to these joint initiatives, a redesign of the Grievance Arbitration Tracking System (GATS) has been initiated to enhance the system of report generation. All district offices will be required to track grievances at the Step 2 level for inclusion in GATS to facilitate more in-depth analysis of current and potential sources of contractual disputes.

## **2 PERSONNEL**

### **a. Postal Career Executive Service**

There were 1,007 individuals in the ranks of the Postal Career Executive Service (PCES) at the close of 1998. Of this total, 757 individuals held PCES I positions and the remainder (other than officers) served in Executive and Administrative Services (EAS) positions. These figures represent 33 percent and 25 percent, respectively, for PCES I executive and PCES II officers. Of the officers, there were six white females, two black males and

two Hispanic males. In the PCES I ranks, there were one Native American, three Asian females, thirty-two black females, three Hispanic females, ninety-five white females, one Native American male, eight Asian males, seventy-two black males, and thirty-eight Hispanic males. There were 41 PCES II officers in the Postal Service at the end of the fiscal year. The makeup of the PCES II officers and PCES I executives is representative of the Postal Service's diverse workforce.

### **b. Consultation with Management Associations**

In accordance with Title 39, United States Code, Section 1004, a regular program for consultation was conducted with the National Association of Postal Supervisors (NAPS), National Association of Postmasters of the United States (NAPUS), and the National League of Postmasters of the United States (League). These sessions provided an opportunity for the management associations to participate directly in the planning and development of programs and policies relating to supervisory and other managerial employees.

The 1995–1998 compensation package for EAS employees continued to be administered through this consultation process. The parties also met to review and discuss preliminary data regarding comparability studies on private sector wages and benefits in anticipation of the next round of nonbargaining pay consultations expected to commence in March 1999. In addition, each of the management associations provided representatives to participate on a wide variety of Headquarters and field work teams tasked with formulating and testing procedures for new programs in such functional areas as retail, workforce planning, finance, and training.

### **c. Equal Employment Opportunity**

**1. Affirmative Action.** The Affirmative Action unit provides national guidance on the Postal Service's Affirmative Employment Program. During 1998, the staff focused its efforts on the Voice of the Employee issues identified in the *CustomerPerfect!* process.

The staff helped postal managers complete affirmative employment program accomplishment reports that addressed the prevention of sexual harassment and discrimination in the workplace. The accomplishment reports are submitted annually to the Equal Employment Opportunity Commission.

The Affirmative Action staff maintains the Diversity Reporting System (DVRS) which provides detailed workforce statistical reports. These reports are helpful in analyzing workforce data and identifying employment trends. DVRS enhancements for 1998 included the development of tracking reports for applicant flow, awards, and EEO complaints. Statistical information from the DVRS is provided by request to the General Accounting Office, Equal Employment Opportunity Commission, Congress, and other external as well as internal customers under the Freedom of Information Act. In addition, Affirmative Action developed and distributed semiannual Workforce Profile Reports to officers and managers to provide the status of different employee groups.

The Postal Service also operates the National Hispanic Program and the Postal Service Women's Program within the framework of existing affirmative action/equal employment opportunity laws, policies, and regulations. These programs focus attention on the special needs, obstacles, and concerns of certain identified groups when they are underrepresented in postal employment compared to the civilian labor force. The major accomplishments for these special emphasis programs are outlined as follows:

*1. The National Hispanic Program.* During 1998, the National Hispanic Program (NHP) created the NHP Executive/Managerial Development Process, in its mission to address the Voice of the Employee and underrepresentation of Hispanics in the Postal Service. District Managers and Senior Plant Managers identified and nominated 104 high potential Level EAS-22 and above employees for inclusion in this process.

The process consists of computerized psychometric instruments, the executive simulation exercise *Looking Glass*, and a personalized evaluation of strengths and areas of development by certified psychologists. Each candidate is then given an Individual Development Plan that includes academic counseling and training, on-the-job assignments, and executive coaching by experienced senior managers in the field to prepare them for higher level positions.

As part of this process, participants completed the Executive Leadership Training Program at Duke University, and many of them also are enrolled in college and professional level courses at various

colleges, universities, and accredited learning institutions in their areas. As a result of this process, the participants have enhanced their skills and become more proficient and productive in their present positions, and many have been detailed or promoted to higher-level positions.

Also, during 1998 through its network of Hispanic Program Specialists in the field, the NHP has sponsored or its representatives have attended many recruitment and community outreach activities. One such activity included the Test Battery 460/470 Pre-Test Orientations which have resulted in increased numbers of qualified Hispanics applying for and obtaining Postal Service jobs at all levels. In addition, the NHP in its efforts to respond to the Voices of the Customer and Business goals, has sponsored numerous national organizations such as HACU, LULAC, La Raza, National Image, U.S. Hispanic Chamber of Commerce, and the American GI Forum. These outreach activities have helped to establish the Postal Service as a benchmark among this nation's businesses in addressing the needs of the Hispanic community.

*2. The Postal Service Women's Program.* The Postal Service is committed to improving the status of women in the workforce through structured programs and positive actions that will remove barriers and allow the full participation of women at every level of the organization. The Women's Program has several plans/activities in place to accomplish this mission.

The Women's Program is also developing an Executive Leadership Training Program that mirrors the one provided by the National Hispanic Program. The program, which will target female employees, will also include an assessment phase followed by career counseling, an individual development plan, and formalized education to strengthen weaknesses. Educational components will include a structured program at a university and/or individual courses. This training program will enhance the participant's ability to succeed as a candidate in the Advanced Leadership Program.

The Women's Program is also analyzing studies that focus on work and family life, and addressing other issues that include: recruitment, retention, mentoring, and succession plans.

One of the major accomplishments of the 1998 Women's Program was its partnership with Stamp Development to create public awareness and generate support for the Breast Cancer Research stamp. Stamp unveiling ceremonies were conducted at several postal and nonpostal conferences.

### **3. Equal Employment Opportunity (EEO) Complaints**

The number of pre-complaint counselings and formal complaints in the Postal Service decreased in 1998. There were 27,169 pre-complaint counselings conducted, a decrease of 5.9 percent from the 28,874 conducted in 1997, 13,809 formal complaints were filed, a decrease of 2.7 percent from the 14,187 filed the previous year.

Emphasis continued to be placed on early dispute resolution both through standard pre-complaint counseling and through the Postal Service's Alternative Dispute Resolution (ADR) process for EEO claims. During 1998, the ADR initiative known as REDRESS (Resolve Employment Disputes, Reach Equitable Solutions Swiftly) was expanded nationwide based on positive results from pilot programs.

REDRESS provides for outside mediation within the first two weeks that a claim is raised in the EEO process. By the end of FY 99, all 85 district offices in the Postal Service will have implemented REDRESS. The initial focus of REDRESS will be to reduce the flow of claims from the informal to the formal part of the EEO process, and the progress of this effort will be carefully monitored and evaluated as it rolls out.

#### **d. Employment of Individuals with Disabilities**

In most cases, the Postal Service uses regular competitive procedures in selecting individuals with disabilities for employment. Nonetheless, individuals with severe disabilities receive non-competitive employment consideration through referrals from individual State Departments of Vocational Rehabilitation or the Department of Veterans Affairs. In 1998, the Postal Service's career workforce included 47,502 employees with reported disabilities and 7,680 employees with targeted disabilities.

Each year, the Postal Service submits an Affirmative Employment Plan and an Accomplishment Report for Individuals with Disabilities to the Equal Employment Opportunity Commission. The Affirmative Employment Plan is disseminated to Postal Service field installations, and each installation head is responsible for implementing the plan.

#### **e. Preference Eligible Veterans' Employment**

The Postal Service is one of the largest employers of preference eligible veterans and disabled veterans in the nation. At the end of 1998, the Postal Service employed 263,300 preference eligible

employees entitled to veterans preference, including 90,585 preference eligible veterans with disabilities. Of that number, 20,056 have disabilities of 30 percent or more. The Postal Service prepares an annual Accomplishment Report and Plan Certification for the Disabled Veterans Affirmative Action Program. The plan is submitted to the Office of Personnel Management.

#### **f. Employee Assistance Program**

Employee Assistance oversees the Employee Assistance Program (EAP), as well as workplace violence prevention and child dependent care initiatives. The Postal Service EAP is one of the most effective in any sector, public or private. The EAP includes free, voluntary, confidential, in-person counseling services to employees and family members by master's-level counselors housed in or near local Postal Service facilities. Counselors assist employees and family members with a variety of difficulties that affect their lives and their work, including emotional, financial, legal, chemical dependency, marital, and family problems.

Counselors are available 24 hours a day, seven days a week, in convenient locations. In addition to the full-time counseling staff of approximately 223, the EAP has a network of more than 4,000 professional affiliate counselors nationwide. Through this network of full-time and affiliate counselors, by the end of 1998, 236,000 employees and family members had contacted EAP for assistance since the new, expanded EAP began in March 1993. In 1998 alone, 35,869 employees and their family members received counseling from the EAP. This is an increase of 6 percent over the prior year, and five times more than the last year of data under the "old" EAP, which focused on substance abuse problems. In particular, supervisors increased their use of the EAP by 10 percent, indicating an enhanced trust in the professionalism of the services. Fully 53 percent of the Postal Service employees seeking counseling reported that their problems negatively affected their job performance.

The EAP also provides consultation to managers and supervisors regarding not only individual workers, but also the work setting within which they function. Employee and Workplace Intervention Analysts and EAP counselors provided approximately 23,000 consultations to management about such topics as supervision strategies and management skills; they also worked with union members more than 2,200 times to help resolve issues and prevent workplace disruption. The EAP intervenes

when appropriate through preventive efforts, such as manager coaching and educational seminars on communication and stress management; ameliorative efforts, such as conflict resolution sessions and organizational interventions; and restorative actions such as debriefings after a critical incident (e.g., suicide, domestic violence at work, armed robbery, accidental death).

Multiple violence prevention efforts have been undertaken. Training programs develop awareness skills in managers, supervisors, and union officials to reduce the risk of violence. A model Crisis Management Plan that identifies and defines roles and responsibilities of crisis management team members provides for the care and support of victims and their families and establishes an orderly return to normal operations was distributed for use across the nation. Likewise, a crisis simulation model for local skill enhancement and plan refinement has been implemented in the majority of areas. A Threat Assessment Team guide for local leadership to use in reacting to potentially violent situations is now being used by the field. Yet another piece of the violence prevention efforts is developing training and a process to facilitate safe separation when necessary.

EAP counselors and Employee and Workplace Intervention Analysts are typically an initial contact when a situation is threatening in nature. In 1998, they responded to approximately 865 critical incidents and provided assistance to more than 7,000 employees after these incidents.

A comprehensive, in-depth, multifunctional review of the EAP by postal executives led to over 30 recommendations aimed at decreasing costs while maintaining program quality. Review Committee recommendations have been implemented, resulting in program savings of an estimated \$25 million over the next five years.

The dependent child care initiatives focus on evaluating several pilot projects across the United States.

#### **g. Injury Compensation**

In 1998, the Postal Service had an increase in the growth of workers' compensation cash outlays of approximately \$23 million (4.5%) over 1997 for a total expense of approximately \$760 million. Total paid compensation claims decreased by 63 (–0.2%), and total medical claims decreased by 61 (–0.05%), in line with the prior fiscal year.

During 1998, the Postal Service cost control strategy was again directed through the continued efforts of the National Workers' Compensation Task Force. This Task Force is responsible for identifying ways to reduce injury compensation costs and for assisting in the rehabilitation and return to work of injured employees. In mid-1998, the Task Force provided renewed emphasis in those areas where lower performance has been identified. The program identifies workflow processes where improvements can be made within a specific area and opportunities for additional cost reductions based on best practices.

Another cost control strategy was the inception of the Nurse Coordinator Pilot Program (NCP) which is aimed at reducing the number of new compensation claims reported to the Office of Workers' Compensation Programs (OWCP). This pilot program was implemented in 22 districts nationwide. The first phase of the NCP has experienced a voluntary participation rate of 90%. An expansion to 13 additional sites is planned for FY 99.

The Postal Inspection Service continued its efforts in 1998 to investigate fraud associated with employees' injury compensation claims submitted to the Postal Service. Postal inspectors identified 327 individuals suspected of workers' compensation violations, and criminal investigations led to 53 arrests. Specific incidents uncovered by postal inspectors include fraudulent claims for Federal Employees' Compensation Act (FECA) benefits and falsification of investigations involving conspiracy and fraud by treating physicians and other medical providers. Postal Inspection Service investigations were a major factor in this year's reduction in workers' compensation expense.

Compensation cost avoidance on the cases noted above was \$98,787,126 and Continuation of Pay (COP) cost avoidance was \$293,975, for a total of \$99,081,101.

#### **h. National Medical Health Program**

The National Medical Health Program provides comprehensive occupational health-related services throughout the Postal Service. These activities include, but are not limited to, applicant physical assessment, injured worker case management, and administration of the national drug testing program. A new physical assessment tool has been developed that utilizes a computer-scored medical questionnaire to assist in assessing the medical suitability of applicants. Additionally, an on-site drug testing pilot program has been implemented that utilizes a technologically advanced, state-of-



the-art testing device that allows immediate reporting of negative results. These initiatives will reduce the cycle time for applicant medical suitability screening.

The medical program has entered into the second year of a two-year pilot that features an enhanced method for case management of injured employees and is jointly managed with the Postal Workers' Compensation Program. Certified nurse case managers afford more rapid and expert medical management of acute on-the-job injuries. This program is expected to not only ensure prompt and professional medical case management, but also to contribute to reduced costs associated with the Postal Workers' Compensation Program.

#### **i. Succession Planning**

Succession planning is the deliberate and systematic effort by the Postal Service to ensure leadership continuity and build talent from within. The objectives are to identify individuals who can move into executive positions, to develop people for corporate needs, and to foster diversity among the leadership ranks. Individuals are identified as potential successors based upon their leadership skills, functional and management expertise, and performance results. The Postal Service's Succession Planning has been designed to place the right people in the right jobs. After completing the fourth full year of succession planning, 98 percent of executive vacancies were filled by successors and 2 percent were filled by nonsuccessors. Thirty-three percent of vacant executive positions in 1998 were filled by promotions of EAS employees to PCES, 65 percent were filled from within the executive ranks, and 2 percent were filled from outside hires.

During 1998, a management development program was initiated to prepare individuals for EAS management positions. This initiative demonstrates a greater management commitment to identify talent and to develop the skills of Postal employees.

#### **j. Combined Federal Campaign (CFC)**

The Postal Service joins other federal agencies in the Combined Federal Campaign drive each fall. For the 1997 CFC, our nationwide achievement was \$34 million. Thirty-six percent of the Postal employees participated in this campaign, the majority choosing to give through payroll deduction. The average gift last year was \$150.

### **3 COMPENSATION AND BENEFITS**

#### **a. Pay Comparability**

##### **1. Bargaining Unit Employees' Pay and Benefits.**

The Postal Service continues to apply the principle of moderate restraint, set forth in past interest arbitration awards, to attempt to achieve compensation rates comparable to private industry. During 1998, the average compensation and benefits for career bargaining unit employees (excluding corporate-wide expenses) was \$50,117 per work year.

##### **2. Nonbargaining Unit Employees' Pay and**

**Benefits.** Pay for supervisors, postmasters, and nonbargaining unit staff employees generally meets or exceeds private sector levels. It also provides an adequate and reasonable differential between first-line supervisors and bargaining unit clerks and carriers.

Substantial changes were made in the non-bargaining unit pay package in 1996, after consultations with the management associations. While there are a number of changes, the key elements to this pay package are the migration to a more market-based pay structure and pay practices that link all future pay adjustments and bonuses to performance (no automatic increases). The introduction of the EVA Variable Pay Program to EAS employees aligns their pay practices with PCES executives and the corporate success measures as established under the *CustomerPerfect!* process. This pay package is in effect through November 1998 and provides management with the framework to drive the necessary behavioral changes to make the Postal Service competitive in the marketplace.

**3. Executive Pay and Benefits.** Due to the limit imposed on Executive Schedule I salaries by the Postal Reorganization Act, pay and benefits for Postal Service officers and some key executives fail to meet private sector comparability standards. During 1998, the average salary for Postal Service officers was \$138,294. The average executive salary was \$96,132.

The Postal Service continued to provide a focus on corporate objectives through the 1998 EVA Variable Pay Program. This program recognizes the significant role that postal executives and other EAS employees played in achieving another year of exceptional on-time service and financial performance. The EVA Variable Pay Program provides a significant potential award payout for achieving breakthrough financial performance.

Furthermore, by using the same performance measures for officers, executives, and EAS employees, participants are common stakeholders in the success of the Postal Service in achieving its *CustomerPerfect!* goals. Finally, to help focus on continuous improvement and long-term results, the 1998 payments consisted of a percentage of prior year's reserve account and current year earned credit. In 1998, award payouts averaged \$2,643 for nonbargaining EAS employees and \$10,136 for executives. While the program was designed to recognize team performance, provisions were made to exclude individual employees who did not contribute to the performance of the organization.

#### **b. Leave Programs**

Postal Service employees are provided both sick and annual leave at the same rate as other federal sector employees. However, Postal employees have a higher annual leave carryover limit than their federal sector counterparts. Postal employees used an average of 8.5 days of sick leave per employee during 1998. Annual leave may be donated to other career Postal employees who have exhausted their own leave and have a serious health problem. Under the Family and Medical Leave Act, eligible employees may take up to 12 weeks of annual leave, sick leave, or leave without pay for covered conditions in accordance with applicable collective bargaining agreements and current leave policies. Postal Service career nonbargaining unit employees and some bargaining unit employees can participate in a leave exchange program through which a portion of annual leave that would otherwise be earned in the following leave year can be exchanged for cash. The Postal Service allows the use of 80 hours of sick leave for dependent care under a policy available to all career employees.

#### **c. Health Insurance**

Health care contributions totaled \$2.6 billion, or 5.6 percent of the Postal Service's total compensation and benefits during 1998. Under the Omnibus Budget Reconciliation Act of 1990, the Postal Service is required to fund the annuitants' share of the FEHB premiums. During 1998, the cost of funding the health care benefits for postal annuitants and their survivors was \$581 million.

Pursuant to a 1993 interest arbitration award, the Postal Service continued to reduce its share of health benefit premium contributions. Employees are automatically enrolled to pay health benefit premium contributions with pretax payroll deductions.

#### **d. Life Insurance**

The Federal Employees Group Life Insurance program provides life insurance coverage for Postal Service employees. The Postal Service assumes the full cost of basic life insurance for eligible employees. During 1998, Postal Service costs for employee life insurance were \$194 million. During 1998, the cost of funding life insurance for postal annuitants and their survivors was \$7 million.

#### **e. Retirement Systems**

At the end of 1998, there were 791,314 career employees enrolled in Postal Service Retirement Planning. Of this total, 479,069 (60 percent) were covered by the Federal Employees Retirement System (FERS), 298,827 employees (38 percent) were covered by the Civil Service Retirement System (CSRS), and 13,418 (2 percent) were covered by CSRS Offset. By the end of 1998, 339,255 Postal employees eligible under FERS participated in the Thrift Savings Plan (TSP), which provides a minimum agency contribution of 1 percent and matching contributions of up to 4 percent. The maximum agency contribution is 5 percent of basic pay. Although there is no agency contribution for CSRS/CSRS Offset, 158,544 of these employees participated in TSP.

#### **f. Flexible Spending Accounts**

Employees continue to take advantage of Flexible Spending Accounts (FSAs) to pay for certain health care and dependent care expenses with contributions made through pretax payroll deductions. FSAs were first offered in 1992 to certain nonbargaining unit employees and have since been expanded to include all employees. In 1998, 43,908 employees were enrolled in dependent health care FSAs (a 13 percent increase from 1997), with an average contribution of \$1,166. In 1998, 5,657 employees were enrolled in dependent care FSAs (a 6 percent increase from 1997), with an average contribution of \$2,811. The projected 1998 savings for the Postal Service resulting from the FSA program is approximately \$1.3 million (net of administrative expenses). Employees experience tax savings as well, which vary according to the individual's contribution amounts and marginal tax rates.

## 4 TRAINING AND DEVELOPMENT

### a. General

During 1998 Corporate Training and Development reorganized its internal structure and renamed the training function Employee Development (ED). The new structure is composed of two main areas of responsibility: Product Development and Evaluation, whose responsibilities include conducting needs assessment and designing, developing, and evaluating curricula; and Delivery, which operates from two delivery sites: the William F. Bolger Center for Leadership Development, Potomac, MD, and the National Center for Employee Development, Norman, OK. Both centers are self-contained campuses providing classrooms, conference facilities, housing, dining, and related services. In addition, there are 85 Postal Employee Development Centers (PEDCs) throughout the nation that support operational needs by providing local training assistance to employees.

Training and development delivery methods include traditional classrooms, satellite training, videotape, correspondence, on-the-job instruction, Web-based instruction, and combinations of the above. Input for training and development activities is provided through field interface meetings, major metro manager meetings, the national training advisory panel, and regular meetings with Headquarters and field clients and customers.

The 16-week Associate Supervisor Program (ASP) for first-line supervisors continues to be a national success this year. Over 3,000 employees graduated nationwide. Eighty districts actively participate in the program. ASP receives high ratings from employees, management, and the National Association of Postal Supervisors (NAPS).

The Postmaster Core Curriculum went into its second year of operation. The curriculum's course material provides postmasters with the necessary knowledge and skills to run a successful postal operation. The courses are endorsed by, and were developed in partnership with, the League of Postmasters of the United States (League) and NAPUS. The course for postmasters at levels 18 and above went through an annual review, and materials for 1,800 students were distributed. More than 2,300 postmasters were trained this fiscal year by A-15 postmaster trainers recently certified as instructors.

Employee Development designed and developed the Interpersonal Communicating Skills and Organizational Negotiating Skills courses. They are aimed at improving workplace communication skills and the way we negotiate with employees on a daily basis, respectively. The target audience is EAS employees level 15 and above. This includes support personnel, supervisors, managers, and postmasters.

The Advanced Leadership Program (ALP) was designed, developed, and delivered in 1998. This three-phase, competency-based program is aimed at mid- and senior-level EAS employees who have a proven record of leadership and the potential for further growth and development. ALP includes one week of self-awareness activities and one week each of Business Foundations, Business Decisions, and Business Leadership. It also includes elective university-based education. The basis for the design of ALP is 30 executive competencies identified through interviews with 166 top postal executives and officers. These competencies are considered essential as the Postal Service moves into the 21st century. Forty-two participants from Allegheny, Northeast, and Great Lakes Areas were nominated by their Area Vice Presidents for the prototype class. Four additional groups began Week 1 of the program in 1998. A total of 43 classes are scheduled through the year 2000.

PBS-The Business Channel, a major initiative through an innovative partnership, will offer Postal employees quality training programs via our Postal Satellite Training Network (PSTN). This initiative will make training programs available five days per week. Access to full videotaping rights provide an additional training and development resource to our existing postal training selection. This training will also be creditable toward Strategic Focus 99 training hours.

### b. Training & Development Technical and Craft Training

In early 1998, the Technical Training Center (TTC), Norman, OK, was renamed the National Center for Employee Development (NCED). The Center achieved its sixth year of continuous improvement since the 1992 postal restructuring, exceeding the number of employees who received training in 1997 by 15 percent. It conducted 180 courses, including maintenance and motor vehicle programs on major postal systems and equipment, plus environmental compliance and automation management training. This year's efforts supported field

office training requests, equipment changes and deployments, and national postal programs. NCED delivered 2,840 class offerings for 59,850 employees.

National delivery of Automation Proficiency Improvement training was a major effort in 1998, providing job proficiencies for maintenance and operations employees to get top performance from automated mail-processing equipment. Advanced Facer Canceler System training increased to teach the extensive AFCS-ISS modification, and efforts began to support national deployment of 173 new Integrated AFCS machines.

Flat Sorting Machine training went to a three-tour operation to support aggressive deployment of Flat Mail optical character reader modifications to over 800 FSM 881 machines. NCED began conducting machine maintenance training for the Flat Sorting Machine 1000, and prepared to accept three more training machines and go to four simultaneous course offerings in FY 99. Small Parcel and Bundle Sorting training began efforts to support a 30 percent increase in deployed machines.

Another major initiative included training for the senior mail processors who prepare delivery point sequence mail for daily delivery. This is a relatively new position in the Postal Service, and proper training is critical to the success of the delivery point sequence initiative. Initial efforts targeted the Carrier Sequence Barcode Sorter SMPs, and over 2,000 trained SMPs are now operating and servicing systems throughout the United States.

A new Advanced Troubleshooting course was developed for electronics technicians as a result of field feedback on job-skill needs. Course modules include simulation of mail processing machines and meters, with in-depth troubleshooting and testing analysis. A new course also began on Robotic Tray Handling.

NCED housing for students and conference guests totaled over 208,250 nights, a five percent increase over 1997.

Distance learning continued to deliver a significant amount of national training and information directly to employees in their home offices. The 850-site Postal Audiographics Teletraining Network and the 380-site Postal Satellite Training Network (PSTN) delivered critical training to approximately one-third of the NCED's students in a timely manner and at significant travel savings to field offices. The PSTN also supported the Southeast Area's training and information satellite network of 500 sites.

#### **c. William F Bolger Center For Leadership Development**

During 1998, the Employee Development Media Unit broadcast over 150 hours of programming over PSTN. Issues centering around External First-Class Measurement, Delivery Operations, EAP Counseling, Ethics, FERS one-time election for 1998, Threat Assessment Procedures for local post offices, Field Consumer Affairs tracking changes, Stress Management, computerized Retail Clerk exams, and a variety of other postal topics reached a nationwide audience of over 30,000 Postal employees. The Media Unit also produced over 50 videos that supported Strategic Focus 98 training initiatives, Environmental Policy, Leadership Behavior Model, Advanced Leadership, Revenue Assurance, and other topics that impacted Postal employees nationwide.

#### **d. Postal Career Executive Service Training**

During 1998, the Postal Service sponsored one individual as a Sloan Fellow at the Massachusetts Institute of Technology. One individual was also sponsored in the Harvard Advanced Management Program and another in the Stanford Executive Program.

#### **e. National Sexual Harassment Education and Prevention Activities**

1998 marked the rollout of the National Sexual Harassment Prevention and Education Facilitator's Course. This interactive course was designed to increase understanding and awareness of the serious nature of the problem of sexual harassment. Included in the course was a new postal video (available in English and Spanish) entitled "It's an Issue of Respect...and It's the Law!"

Two hundred thirty facilitators were trained at five locations across the country during the week-long course. The facilitators will, in turn, train postal managers and supervisors how to identify, manage, and prevent sexual harassment in the workplace.

A new postal directive, Publication 553, *Employee's Guide to Understanding Sexual Harassment*, was developed and mailed to all Postal employees. The purpose of this handy guide is to help employees learn more about sexual harassment—what it is and what to do about it if it happens. Publication 554, *Manager's Guide to Understanding Sexual Harassment*, first issued in June 1995, is in the revision stage and is scheduled for publication in early 1999.



The law requires employers to take all reasonable steps to end sexual harassment in the workplace. To that end, sexual harassment education and prevention is an ongoing process, and the Postal Service continues to be very aggressive in its commitment to eliminate sexual harassment from the workplace. In addition to the above activities, the Postal Service also issued a revised policy on sexual harassment and has initiated a Management Inquiry Process (MIP) to guide managers in handling and resolving (when possible) sexual harassment complaints. This process will be included in the newly revised Publication 552, *Manager's Guide to Understanding Sexual Harassment*.

As part of the MIP, the Postal Service is also proposing a national tracking system to determine the extent to which sexual harassment is reported in the workplace. This system would:

- track allegations of sexual harassment that have been reported to a supervisor/manager;
- pinpoint workplaces that are in need of early intervention efforts to resolve situations;
- track the progress of Postal Service education and training efforts; and
- determine the number of allegations by categories (e.g., manager, peer, subordinate).

## **5 SELECTION, EVALUATION, AND RECOGNITION**

### **a. Merit Pay Performance Evaluation**

Beginning with 1997, Individual Performance Assessment (IPA) process was merged into the Merit Performance Evaluation process. Carried over from the IPA were the concept of manager accountability for subordinate performance improvement plan. The Merit Pay Performance Evaluation program was developed and implemented to evaluate and reward each EAS employee's contribution to the success of the work unit. This program is closely aligned with the *CustomerPerfect!* philosophy and emphasizes each employee's link to overall corporate goals.

Starting in FY 99, a version of Merit Performance Evaluation will be implemented. Like its EAS counterpart, it links each executive's efforts to overall corporate goals. It retains features of previous programs for the development of effective management behaviors and it requires that the executive set specific objectives in support of corporate and local business, workplace environment, and organizational learning and development goals.

### **b. National Test Administration Center Activity**

During 1997, the Postal Service administered and processed more than 1,000,000 entrance examinations, including over 100,000 computer-administered examinations. NTAC continued to provide administrative innovation through piloting of centralized application processing procedures and assisting in the development of a new means for processing medical suitability information.

## **D. Postal Cost Apportionment and Postal Ratemaking Developments**

(39 U.S.C. 101 (d))

### **1 OMNIBUS RATE CASE (DOCKET R97-1)**

Docket No. R97-1, the tenth omnibus rate proceeding since Postal Reorganization, was initiated by the Postal Service in July 1997. The Postal Service proposed a test year of FY 1998, commencing on October 1, 1997, and terminating one year later. Overall, rate increases proposed by the Postal Service in its filing were held below the cumulative rate of inflation and averaged approximately 4.5 percent.

Hearings at the Postal Rate Commission ran through the end of March 1998, and the transcripts of those hearings exceeded 20,000 pages. Following the filing of initial and reply briefs by the parties in April, the Commission issued its Opinion and Recommended Decision on May 11, 1998. In developing its recommendations, the Commission took account of known and certain cost decreases and the fact that the Postal Service's financial performance in FY 1997 had exceeded the expectations upon which the case was based. Instead of the revenue requested to cover an expected test year 1998 revenue deficiency of \$2.4 billion, the Commission scaled back the increase to approximately \$1.7 billion. As in the past this total was intended to allow projected revenues to equal projected operating costs, to provide an amount for contingencies, and to recover a fraction of prior years' losses. Total estimated test year revenue was \$60.9 billion.

The Commission reduced the overall rate increase from the 4.5 percent requested by the Postal Service to 2.9 percent. The Commission recommended the 33-cent rate proposed by the Postal Service for the first ounce of First-Class letter mail. The increase for the entire First-Class letter subclass was 1.7 percent and, therefore, below the overall average. In comparison, commercial Standard Mail (A), which consists substantially of advertising mail, received an aggregate recommended increase of 3.5 percent, which is above the overall average. Recommended increases for other major subclasses were 0.2 percent for First-Class cards, 5.6 percent for Priority Mail, 8.1 percent for Express Mail, 4.6 percent for Periodicals, 12.4 percent for Parcel Post, and 5.0 percent for Bound Printed Matter.

The Governors approved the vast majority of the Commission's recommendations on June 29, 1998. In light of the Postal Service's improved financial posture, the Board of Governors determined that implementation of the new rate changes could be delayed until January 10, 1999. This delay beyond the earliest practicable implementation date (i.e., August) represented forgone revenue to the Postal Service of approximately \$800 million. Moreover, deferring implementation extended the rate cycle (the period between this rate change and the one resulting from the immediately preceding general rate case) to over four years. Therefore, mailers benefited, from not only the lowest overall percentage rate increase ever, but also the longest period between general rate increases. While the Board acted independently in selecting the January 1999 implementation date, its action in this regard was consistent with the views expressed by mailers, and by the Commission in its Opinion.

The Governors returned three relatively minor matters to the Commission for reconsideration. In two instances, events subsequent to the issuance of the Commission's Recommended Decision had caused the Commission to acknowledge certain anomalies that could not be corrected absent the opportunity for reconsideration. In these two instances, involving Within County Periodicals Mail and Parcel Post Mail entered at Destination Delivery Units, the Governors sent the rates back

to allow the Commission to make any necessary revisions. In the third instance, with respect to Library Mail, the Commission had adopted the basic approach that Library mailers should be charged the same rates as if their mail were entered as Special Standard Mail. The Governors did not challenge this basic approach, but asked the Commission to reconsider and clarify how it had implemented that approach.

In a separate Decision, also issued on June 29, 1998, the Governors rejected two classification changes recommended by the Commission. Each of these proposed changes involved letter mail deposited by mailers using an envelope provided by the party to whom the letter is directed, for purposes such as bill payment survey responses. The Courtesy Envelope Mail (CEM) proposal was a familiar one, having been proposed by the Commission's Office of the Consumer Advocate in several previous cases, and recommended on those occasions by the Commission. Prepaid Reply Mail (PRM), was a concept that was proposed by the Postal Service. The Governors identified deficiencies in both of these proposals that militated against establishment of the recommended classifications. Instead, the Governors expressed their hope that improvements in the reply mail environment could best be obtained by renewed focus on a third classification change, which they had approved in their main decision. The third change involved Qualified Business Reply Mail (QBRM), which the Governors found to be the most promising vehicle to enhance the convenience and the rate recognition beneficial to a more customer-friendly reply mail operation. The Governors directed the Postal Service to explore further refinements in the QBRM concept for inclusion in future cases.

The Commission received comments and reply comments from the parties on the three matters returned by the Governors in July and August, and issued its further Recommended Decision on reconsideration on September 24, 1998. The Commission made minor revisions in its Within County Periodicals and DDU Parcel Post recommended rates. The Commission also addressed the concerns raised by the Governors with regard to Library mail. The Governors approved the rate and classification changes provided in the further Recommended Decision on October 5, 1998. Like the other Docket No. R97-1 changes, those changes will also go into effect on January 10, 1999.

Four petitions to review the Governors' June 29, 1998, Decision in Docket No. R97-1 have been filed in the United States Court of Appeals for the District of Columbia Circuit. United Parcel Service has raised certain costing and pricing issues regarding postal services (e.g., Parcel Post Priority Mail) that are offered in markets in which its own services compete. The Alliance of Nonprofit Mailers has challenged whether the Commission had an adequate basis to recommend any rate increase at all, given the Postal Service's overall financial performance and has also questioned the cost data used to justify rate increases for non-profit mailers. Niagara Telephone Co. appealed the Commission's determination not to recommend a lower rate for local First-Class Mail. Lastly, District Photo and other photo processors challenged the surcharge recommended for parcel-like pieces of Standard Mail (A), but this appeal was subsequently withdrawn.

In August, the Alliance of Nonprofit Mailers moved for the court to expedite its consideration of at least part of its case. The Alliance argued that since the Postal Service was likely to break even in its chosen test year, FY 1998, without increasing rates, the Commission should have rejected the Postal Service's request for any recommended rate increases. The Alliance wanted the court to consider this argument quickly so that the court could have blocked the rate changes scheduled for January 10, 1999, if the Alliance's challenge had prevailed. On September 15, 1998, after considering the Alliance's motion and the responses and replies thereto, the court denied the motion to expedite. Briefing began in mid-November, and the court will hear argument in April 1999.

## **2 OTHER LITIGATION**

### **a. Mailing Online (Docket MC98-1)**

At its June 29 meeting, the Board approved a filing with the Rate Commission for market test and experimental versions of Mailing Online service. Mailing Online, which has undergone operations testing, allows customers to send electronic documents and mailing lists to the Postal Service via the Internet. The Mailing Online system then transmits the documents to private printers who produce automation compatible mail pieces for entry at designated Postal Service facilities. The market test, which is being conducted initially in the northeastern United States, provides a test of customer acceptance, while the experiment would allow the Postal Service to gain experience providing national service via multiple locations.

In addition to combining features of a market test filing with an experimental filing, the Mailing Online case presents a number of novel approaches to ratemaking and the provision of postal services. Under the Postal Service's proposal, customers will be able to use Mailing Online to send First-Class, Commercial Standard (A), and eventually Nonprofit Standard Mail. Users pay the basic automation rates. The use of automation rates is consistent with our strategy of extending access to automation rates to smaller customers and of encouraging automation compatible mail, while recognizing the cost characteristics of Mailing Online pieces.

While traditional Postal Service products use a fixed rate or fee schedule, fees for printing and document preparation services provided via Mailing Online are based on a simple markup over contract costs of 25 percent. This approach, if adopted for the experiment, would allow prices that reflect wide variations in local prices. A markup would provide a mechanism for adjusting prices to reflect local conditions or changes in supply costs, thus ensuring a positive contribution from Mailing Online.

The Postal Service's case includes expert testimony on costing, pricing, and policy, along with supporting testimony from customers involved in the operations test and a representative of the digital printing council, whose members strongly support the Postal Service's entry into this nascent industry. The Postal Service's request also contains a motion for expedition of the proceedings, which the Commission honored by issuing its Opinion and Recommended Decision on the market test in less than the 90 days called for by its rules. While the schedule for the experimental phase of the case is now being determined, the Postal Service hopes to have a Recommended Decision in time for a spring or early summer national rollout.

### **b. Packaging Service (Docket No. MC97-5)**

In July 1997, the Postal Service filed a request with the Postal Rate Commission asking that it recommend a classification and fee schedule for a packaging service. The Postal Service filed its request under the Commission's recently adopted provisional service rules, which are designed to facilitate expeditious consideration of proposals for new products that supplement, but do not alter, existing services for a period of limited duration. The Postal Service requested that the Commission

recommend packaging service as an acceptance alternative for parcel mailers for a two- to three-year "provisional" period. The proposal was designed to enable postal customers to present unwrapped, mailable items to be packaged and staged for dispatch by the Postal Service. This proposal builds upon our existing core parcel and shipping services and promotes customer satisfaction by facilitating one-stop shopping for retail mailers.

After the submission of the Postal Service's request, the Postal Rate Commission held hearings on the proposal. Several organizations, including a coalition of retailers in the mail and parcel industry, actively participated in this proceeding. In March 1998, after full consideration of the information supplied by the Postal Service and other participants, the Commission recommended, with some modifications, the proposed provisional service. The Commission's recommendations have been transmitted to the Governors of the Postal Service for their consideration and action under the procedures set forth in the Postal Reorganization Act.

**c. Parcel Barcode Experiment  
(Docket No. MC96-1)**

On December 19, 1995, the Postal Service filed a request with the Postal Rate Commission for an Experimental First-Class and Priority Mail Small Parcel Automation Rate Category, requesting a four-cent discount for certain bulk parcels entered for certain bulk prebarcoded First-Class Mail and Priority Mail small parcels entered for processing at three sites on a two-year experimental basis. The Governors and the Board implemented the change on April 1, 1996. The experiment expired on April 28, 1998, as scheduled per the required DMCS language. The Postal Service sent a letter to the Postal Rate Commission stating that no attempt would be made to establish it as a permanent classification change at this time.

## E. Transportation Policies

(39 U.S.C. 101 (f))

### 1 GENERAL

The Postal Service spent \$3.5 billion in 1998 for the contractual transportation of mail. This figure represents a 14.3 percent decrease from 1997 transportation expenses. Mail transportation expenses accounted for 7.06 percent of total postal expenses in 1998 (see Table 1.1).

### 2 DOMESTIC TRANSPORTATION

#### a. Air Transportation

Air transportation costs in 1998 totaled \$1.34 billion. This includes the use of commercial airlines (passenger and freight) as well as dedicated network and air taxi service. The Postal Service contracted with 64 commercial airlines to move more than 2.5 billion pounds of domestic mail last year. Twelve of these airlines handled 95 percent of the volume. Of 56,000 commercial airline flights that are available on a daily basis, the Postal Service uses approximately 15,000 for the transportation of mail. To supplement the movement of mail by air, the Postal Service operates its Eagle Hub in Indianapolis, IN. The Hub operates a nighttime network (ANET) with 29 aircraft and serves 46 cities directly. The Eagle Hub transports more than 775,000 pounds of mail each night: 35 percent is Express Mail, 40 percent is Priority Mail, and 25 percent is First-Class Mail. The 256,000 pounds of Express Mail equates to approximately 65 percent of all Express Mail that moves by air. In addition, during the Christmas rush period, the network expands to encompass a daytime service that transports more than one million pounds of Priority Mail each day for a 13-day period. Additionally, the Postal Service operates the western dedicated air network (WNET), which transports more than 150,000 pounds of mail each day in the Western and Pacific Areas. Of the total number of pounds of mail transported daily on the WNET, 20 percent is Express Mail; 65 percent is Priority Mail; and 15 percent is First-Class Mail. Between August 1997 and July 1998, the Postal Service implemented year-round daytime service for Priority and First-Class Mail with 23 aircraft serving 35 cities, supplemented by surface transportation, for an average of 1.6 million pounds of mail per day.



### **b. Rail Transportation**

Postal Service expenses for rail transportation were \$275 million in 1998. This represents a 36 percent increase over 1997. The Postal Service holds contracts with eight railroads that perform service on approximately 1,800 rail segments.

In 1998, the Postal Service paid Amtrak \$72.6 million for rail transportation services. Expanded service included using a rail/highway combination vehicle called a RoadRailer vehicle. This vehicle, and highway drayage, has extended the reach and capability of Amtrak service to meet postal needs. Amtrak provides service for the majority of the periodicals transportation network.

### **c. Highway Transportation**

The Postal Service expended approximately \$1.8 billion for highway mail transportation in 1998, a 5.9 percent increase over 1997. There were approximately 16,000 highway contract routes operating during 1998. A select number of HCR trailers (120) were enhanced and standardized to participate in the Celebrate the Century program, as well as improve HCR trailer and equipment image.

### **d. Hub and Spoke Program (HASP)**

Intermodal operations were successfully implemented at the Indianapolis and Southeast HASPs in 1998. Fourteen aircraft, ranging in size from DC-9s to 747s were introduced over a 6-month period. These actions reduced congestion at commercial airline transfer hubs, improved service, and provided more a more consistent mail arrival profile. There are nine HASPs currently operating. An additional HASP, to be located in the Southwest Area, is in the early planning stages, with a projected implementation date of July 1999.

### **e. Domestic Water Transportation**

In 1998, the cost of transporting mail to domestic offshore destinations was \$26.0 million, a 1.6 percent increase over 1997.

## **3 INTERNATIONAL TRANSPORTATION**

### **a. International Air Transportation**

In 1998, the Postal Service spent \$368 million for international air transportation. Of the total cost, \$167 million was for military mail and \$201 million for international Express Mail Service, Airmail,

and International Surface Airlift. U.S. flag carriers were paid \$296 million, and foreign flag carriers received \$71 million. Foreign flag carriers are used for airmail service to destinations where no U.S. carrier provides the required service. Selection of carriers for surface airlift contracts are awarded on the basis of best value.

### **b. International Surface Transportation**

During 1998, international surface transportation costs were \$8.5 million. This cost covers all surface mail sent by sea. The selection of ocean carriers is based on price and service to the required destinations.

## **4 POSTAL-OWNED TRANSPORTATION**

The Postal Service's active fleet consists of more than 200,000 vehicles and 4,974 leased vehicles (see Table 1.2). These vehicles provide transportation primarily for the carrier delivery network. Approximately 10,000 are used to haul mail between facilities, airports, and private mailers' plants. In 1998, total expenses were an estimated \$809 million, a 1.4 percent increase over 1997.

Due to the expanding delivery network, the number of miles traveled in 1998 increased 0.7 percent. Vehicle operating trends are shown below.

TABLE 1-1  
POSTAL SERVICE VEHICLE  
OPERATING TRENDS

	1998	1997	1996
Number of vehicles	202,833	205,493	202,224
Percent change	-1.3	+1.6	-0.7
Miles traveled (millions)	1,144	1,135	1,105
Percent change	+0.7	+2.7	+1.7
Miles per gallon	10.0	10.2	9.7
Percent change	-2.0	+5.2	-1.0
Cost per vehicle	\$3,757	\$3,697	\$3,823
Percent change	+1.6	-3.3	+16.5
Cost per mile	\$ 0.71	\$ 0.70	\$ 0.70
Percent change	+0.9	0	+9.4

TABLE 1-2  
POSTAL SERVICE VEHICLE  
INVENTORY 1998

Vehicle Type	Inventory
1/4-ton	17,286
1/2-ton	153,594
1-ton	1,440
2- and 2 1/2-ton	7,276
Cargo vans	2,519
Tractors	1,803
Spotters	410
Trailers	5,269
Service	4,765
Administrative	5,148
Law Enforcement	2,922
Mobile Post Office	198
Miscellaneous	203
TOTAL OWNED	202,833
Leased Vehicles	4,974
GRAND TOTAL	207,807

Our alternative-fuel vehicle fleet is the most visible contribution of the Postal Service to clean air. The Postal Service has converted about 7,300 vehicles—nearly 5 percent of our delivery fleet—to natural gas. In 1998, we purchased 54 dedicated CNG 2-ton vehicles from Freightliner, Inc., for deployment in New York and California. We also converted 3 Long Life Vehicles (LLVs) to propane operation and will continue to expand to a fleet of 51 vehicles. We converted eight LLVs to electricity and are in the process of evaluating the current technology for acquiring more electric vehicles in the near future.

As the fiscal year closed, we completed the process to purchase 10,000 new carrier route vehicles, which will exceed the Energy Policy Act of 1992 for alternative fuel vehicle requirements. These right-hand drive vehicles will operate on either gasoline or ethanol or a mixture of both. When the vehicles are fully deployed in May 2000, the Postal Service will have the largest fleet of ethanol-capable powered vehicles in the country.

## 5 MAIL TRANSPORT EQUIPMENT (MTE)

During 1998 we furthered our commitment to supply our customers with quality MTE by opening the first four Mail Transport Equipment Service Centers (MTESCs) in the Greensboro, NC; Kearney, NJ; Chicago, IL; and Los Angeles, CA, areas. Each MTESC is dedicated exclusively to the processing, repair, storage, and distribution of MTE. In addition to the first four MTESCs now operating, contracts were awarded for the establishment of 18 others, to be located in other major U.S. cities. The additional facilities will open during 1999.

Mail Transport Equipment moves the mail and therefore must always be available to our customers. The MTESC Network will make this happen by taking day-to-day equipment management away from the post offices and into MTESC plants that are specifically designed to handle equipment as needed. This process relieves postal and commercial customers of that responsibility, permitting them to concentrate on the vital business of preparing, sorting, and dispatching mail. The MTESC program calls for all emptied and unneeded equipment to be shipped back to the nearest MTESC. Upon arrival at the MTESC, MTE will be inspected, repaired, sorted, palletized, and made ready for dispatch. Truckload shipments of equipment ordered by our customers will be shipped by dedicated scheduled transportation.

The MTESC program is an integral part of achieving the goals set forth for the 1998–2002 Strategic Plan to satisfy our customers, improve our organizational efficiency, and strengthen our financial viability.

We were also mindful of our other important responsibility, which is to continue to update and improve our national MTE inventory. During 1998, we spent \$160.7 million for new equipment, services, spare parts, and strategic storage to provide customer satisfaction. Additionally, based on customer input, design changes for MTE products have been advanced. To enhance orderly equipment design change and new product development, a Mail Transport Equipment Configuration Control Committee (MTEC<sup>3</sup>) was established to provide a smoother communications path among the MTE offices, their customers, and Engineering counterparts. MTEC<sup>3</sup> will ensure that each new MTE product is designed to be fully recyclable and will represent solid cost and materials improvements over equipment currently in use.

## **F. Postal Facilities, Equipment, and Employee Working Conditions**

(39 U.S.C. 101 (g))

### **1 SAFETY AND HEALTH**

A special safety management program implemented in 1995 continued during 1998. The program focused on reducing accidents and ensuring prompt identification and correction of safety deficiencies at major postal facilities nationally. Operations safety evaluation teams conducted site audits of program implementation and compliance during 1998.

Management continued to focus on safety by including accident reduction targets as a part of the national safety management and the EVA Variable Pay Program as detailed in Chapter 1, Section 3.a.2, Compensation and Benefits, Nonbargaining Unit Employees' Pay and Benefits.

The Postal Service, in conjunction with the National Safety Council (NSC), provided a series of professional safety and health courses to full-time Postal Service safety professionals. So far, approximately 500 postal safety professionals have been awarded Advanced Safety Certificates from the NSC for completing the requisite courses. Safety is also incorporated into craft, supervisory, and management training programs.

Joint labor/management safety and health committees function throughout the Postal Service in accordance with the collective bargaining agreements with the national unions. During 1998, the Postal Service continued its safety policy of scheduling annual inspections of all occupied postal facilities, with accelerated inspections conducted at mechanized or automated sites. Consistent with collective bargaining agreements, union representatives may participate in these inspections.

The "no smoking" policy, first implemented in 1993, remained in effect during the year. This policy bans smoking in all owned or leased buildings and office space occupied by the Postal Service. In 1998, Postal Service continued its emphasis on environmental programs. Subjects included asbestos, lead, radon, hazardous materials, waste management, alternative fuel vehicles, and underground storage tanks.

During 1998, more than 129,504 postal drivers were recognized for operating motor vehicles throughout the year without experiencing a preventable accident. This safe-driver award program is conducted in cooperation with the National Safety Council. Additionally, the Postal Service presented the Million-Mile Club Award to those employees who completed 30 years or one million miles of safe driving performance. According to the National Safety Council, more than 4,797 postal drivers have earned the Million-Mile Club Award since its inception.

The Postal Service remains committed to the prevention of workplace violence. Letter carriers, window clerks, and other employees whose duties require frequent contact with the general public are exposed daily to the danger of assault from outsiders. Postal inspectors have investigated numerous instances in which letter carriers were assaulted and/or robbed while delivering mail on their routes. Postal inspectors also investigate assaults and threats made by one employee to another. Criminal charges are initiated when possible, and instances of misconduct are reported for appropriate disciplinary action. In addition to causing emotional and physical injuries to employees, assaults can result in lost work hours, reduced productivity, low morale, and worker compensation claims. Postal inspectors actively take part in developing new strategies and training programs to address workplace behavior.

### **2 ENVIRONMENTAL PROGRAM**

We foster the use of sustainable resources by promoting pollution prevention, reducing waste, and recycling and reusing materials. We use green products to maintain our equipment and linerless labels for address correction; we purchased more than 100,000 retread tires for the vehicle fleet and use re-refined oil in about 50 percent of postal vehicles; and we created postal products with recycled content.

A "Greening of the Mail" Task Force—which includes representatives from the U.S. Conference of Mayors, ADVO, the Direct Marketing Association, the Environmental Protection Agency, and the Texas General Land Office—was created in 1996 to identify new business opportunities, to increase recycling, and to promote the perception of mail as an environmentally friendly product.

We need to focus on consistent implementation at all postal facilities in all functional areas. Our latest effort is the online Environmental Management Information System, which is now

being deployed. This system will provide real-time data to environmental professionals and other postal managers.

The "Environmental Impacts of Standard Mail" study determined that shopping by mail is currently responsible for a reduction of 2.2 billion miles driven by motor vehicles, for the avoidance of more than 3,000 traffic accidents and 38 traffic deaths, and for keeping more than 60,000 tons of carbon monoxide, nitrous oxide, sulfur dioxide and other volatile organic compounds from polluting the air. The study also showed that shopping by mail annually reduces gasoline consumption by 97 million gallons. And the net economic impact of shopping by mail, based on eco-performance and safety factors, is a \$272 million contribution per year to the American economy.

Another measurement is how others view our work. In addition to Energy Management Awards, the Postal Service also received numerous national, state, and local environmental awards in 1998—including six White House Closing the Circle Awards. We were also recognized with the Direct Marketing Association's Robert Rodale Environmental Award.

The Facilities Environmental Guide was rewritten in 1998, establishing new processes to improve due diligence and meet National Environmental Policy Act (NEPA) requirements. This minimizes our liability risk from contaminated property acquisitions and strengthens the procedures we use to ensure that potential environmental impacts associated with new construction projects are addressed. National training was provided to over 600 Facilities and District personnel.

The Postal Service's facilities program supports environmental initiatives. We are developing projects utilizing the Green Specification, which incorporates many environmentally friendly/sustainable items that are proven products and will not adversely affect building cost and performance. A green showcase project in Ft. Worth, TX, pushes the sustainability envelope and includes additional environmentally friendly initiatives, such as rain water harvesting, xeriscaping (landscaping using native plants to reduce water consumption), compressed straw panels for exterior walls, energy efficient lighting and HVAC systems, recycled rubber dock bumpers, and recycling of construction waste. This project will allow the Postal Service to further evaluate green materials and methods for cost, availability, performance, and aesthetics. Successful initiatives and lessons learned on this project will be incorporated into future national design standards.

The Postal Service continued its Underground Storage Tank (UST) program to ensure system compliance with the U.S. Environmental Protection Agency's December 1998 regulatory deadline for corrosion protection, spill prevention, and leak detection. In 1998, the UST program funded approximately \$14.8 million for the upgrade or removal of USTs and completed 615 projects. In the past 10 years, the Postal Service has committed over \$240 million to upgrade, remove, and remediate any spills associated with the fuel storage systems that service our vehicle fleet. A National UST Conference was held this year to ensure that the Postal Service meets the December 1998 compliance deadline and bring closure to our 10-year UST program.

### 3 ENERGY MANAGEMENT

The Energy Policy Act has a requirement that the Postal Service facilities reduce energy use by 20 percent by 2000. Since the base year of 1985, we have reduced our energy use by approximately 12 percent while deploying thousands of pieces of automation equipment. Our major strategies are to focus on high payback projects such as lighting retrofits using new technology and to implement a Department of Energy-sponsored campaign, "You Have the Power," which encourages employees to get involved with saving energy by shutting off unneeded lighting and equipment. In 1998, the Postal Service was approved for an 8 percent process energy exemption for the automation and mechanization that we have deployed since 1985. We are optimistic that these strategies will allow us to meet our 20 percent goal.

Additionally, Shared Energy Savings is an alternative financing mechanism that can help us meet our energy reduction goals. We have used this method in partnering with utility companies and private businesses. Under this concept, they provide the investment funds in exchange for a share of the savings. Over 30 contracts have been awarded, saving the Postal Service over \$5 million annually in energy costs with a minimal investment of postal funds.

To further this initiative, postal teams across the country are implementing these types of projects, giving them standard documents and procedures. These teams are now reviewing new opportunities to help achieve our energy goals.



In addition to our energy savings initiatives, utility deregulation is creating an opportunity for postal facilities to reduce their energy costs by 10 percent or more. Right now, this opportunity exists for gas, and it is expected to begin for electricity later this year in some states.

#### 4 REAL ESTATE INVENTORY

The Postal Service's real estate holdings are outlined below:

Total owned facilities	7,679
Total owned interior square feet	206,999,448
Total owned land in square feet	808,613,070
Total leased facilities	26,845
Total leased interior square feet	102,748,214
Total GSA/other government facilities	538
Total GSA/other government interior square feet	5,360,016
Annual rent paid to lessors	\$666,046,109

Efforts to streamline the work process of Facilities employees continues to be developed. This year a Construction Cost Program was developed to simplify and improve cost estimating. Construction costs were collected from across the country for all Postal Service customer service facilities completed over the past two years. These costs were averaged by office and nationally to indicate trends and were compared to private sector-supplied national and regional indexes. The final outcome is an objective, analytical system for us when creating future facility cost estimates. The program also allows us to analyze construction cost growth and compare our construction costs to industry trends.

Postal Service facilities design standards, including Standard Design Criteria, Master Specifications, Standard Detail Library, and Standard Building Design programs, are critical to controlling costs and reducing design time, while ensuring quality and consistency in our facility projects. A continuous improvement system has been implemented whereby an updated CD-ROM containing all Building Design Standards is issued to users every

year on March 17. Refinements are intended to address recurring deviation requests and results of Post Occupancy Evaluation surveys of building occupants. Access to the most current Building Design Standards has been improved by establishing a national distributor for the CD-ROM and providing online availability via a FTP server maintained at Headquarters Facilities.

A conference for all Facilities Architect/Engineers was held in 1998. This conference provided the project managers a forum to further their knowledge of design- and construction-related issues within the Postal Service, as well as best practices throughout the industry. The highlight of the conference was an awards banquet, which recognized significant accomplishments exemplifying the innovation and creativity of our employees. Fifteen awards were given for efforts in such areas as Regionalization of Standard Designs, Historic Preservation, Green Initiatives, and Business Practices and Processes.

It is recognized that local communities, which view their post office as a gathering place and nucleus of their downtown area, want involvement in plans to relocate their post office. In response, the Postal Service published a new policy in the *Federal Register* that will provide greater community input for projects to expand, relocate, or construct new retail facilities. The new policy requires at least one public meeting and ensures that local officials and the community are informed at each step of the decision-making process.

Realty Asset Management is the part of Facilities that provides internal expertise to identify, analyze, and maximize the return on underutilized and excess real property assets controlled by the Postal Service. This organization generates income from real estate assets by maximizing postal property value through its highest and best use, leasing or subleasing excess postal space to government and public tenants, and selling unneeded real property. During 1998, revenues totaling \$179 million were generated by Realty Asset Management from the following sources:

Leasing to private tenants	\$14 million
Leasing to government tenants	\$27 million
Sale of excess property	\$60 million
Developmental properties	\$78 million

**Facilities Workload**

	Projects Completed During 1998	Projects Ongoing as of End of 1998
New construction, major renovation, and expansion projects	260	835
Building purchases	176	323
New lease construction	366	498
Other lease actions (alternate quarters, new leases, and lease renewals)	8,516	1,214
Expense repair and alteration projects	11,711	14,403
Capital repair and alteration projects	9,250	14,199

**5 PURCHASING AND MATERIALS****a. Purchasing and Materials Strategic Plan**

Purchasing and Materials continued to follow its Strategic Plan, instituted in 1996 and built around the Postal Service's *CustomerPerfect!* program. The Strategic Plan is intended to complete the transition of Purchasing and Materials from a transaction-based organization to the business customer of choice for both internal Postal Service customers and for external suppliers. Since its initiation, new purchasing policies have been developed and issued, new contract writing and material management systems developed and deployed, professional qualifications increased and standardized, and other achievements attained. Individual organizations within Purchasing and Materials set their objectives around the Strategic Plan, and performance is measured against them. During 1998, significant progress was made on these initiatives, and the following will address some of the highlights.

One of the most important of the Plan's initiatives is to establish process management as a way of doing business throughout Purchasing and Materials. In the materials area, the initiative began in FY 96, and its successful deployment was recognized by the Postmaster General, who awarded the Materials Process Management Team the Performance Excellence Award in 1997. During 1998, similar success was achieved and continuous improvements led to \$2 million in savings, reduced cycle time, and increased customer improvement. Joint management-labor teams in the Mail Equipment Shops and the New Jersey Material Distribution Center (MDC) led this effort. Production of Arrow Locks (the locks on mail

boxes) at the Mail Equipment Shops increased from an average of 137 per hour to 170, an increase of 24 percent; other improvements reduced the cost of the Lock from \$4.95 to \$4.24; and the average time to ship orders was reduced by 60 percent. At the New Jersey MDC, process management techniques led to a number of achievements: inventory accuracy improved 15 percent (leading to the elimination of safety stock and resulting in a cost-avoidance of more than \$142,000), with significant improvements in equipment downtime, injuries, and warehouse efficiency. And, working together, the New Jersey and Topeka MDCs saved nearly \$220,000 by replicating successful improvements and efficiencies in cross-servicing. Finally, through a variety of improvements, Inventory Control reduced emergency orders for an annual savings of more than \$300,000.

During 1998, the process management initiative began within the purchasing discipline. A buying lead team, made up of all managers reporting to the Vice President, began meeting at least monthly. In February, a process management team had developed a structure for the purchasing discipline, with the purchasing process flowcharted and performance indicators established. By the end of 1998, all organizations in Purchasing and Materials had created a comprehensive process management chain and a data collection system to capture the performance indicators at the beginning of FY 99. Training was also provided: two courses were taught to 96 managers, team leaders, and key personnel, and 300 more employees will be trained in FY 99. In order to ensure effective deployment and program effectiveness, an aggressive monthly business review schedule has been developed.

**b. Purchasing**

Another important part of the Purchasing and Materials Strategic Plan is to build stronger relationships with Postal Service suppliers. To further this goal, a new Supplier Development and Diversity organization was established during 1998, replacing the old Quality Improvement organization. This organization uses Baldrige criteria and other resources to work with suppliers on quality requirements and assist them in improving their processes (the organization's supplier diversity responsibilities are discussed below). A Supplier Measurement and Tracking system tracks supplier performance, provides valuable feedback to suppliers, and helps

promote partnering and improved performance. The Supplier Quality Council, composed of eight suppliers and eight Postal Service members, is responsible for sharing accomplishments, practices, and approaches that will promote quality and better working relations. The Postal Service's Quality Supplier Award program also furthers these objectives. In 1998, ten suppliers won the award, which is given to those suppliers who best meet contract requirements, continuously improve products and services, and maintain the highest quality and performance levels.

Another innovative effort focused on enhancing supplier relations, and the purchasing process was begun by Headquarters Purchasing. Four teams were established to investigate and implement new means to reduce cost and cycle times, increase quality, and take advantage of new technologies. The teams, focusing on stamp acquisition, professional services task-order contracts, repair parts logistics, and information technology, interacted with the relevant internal customers and suppliers in the effort. Results included better and more effective communications, enhanced competition, longer-term contracts, lower costs, and increased quality. These efforts will be pursued and expanded during this fiscal year.

As reported last year, Purchasing and Materials issued new, more private-sector-oriented purchasing policies during 1997. During 1998, commodity-specific guidance, focused on the three major commodities purchased by the Postal Service (supplies, services, and equipment; design and construction and related services; and mail transportation and related services), was drafted to help buyers take full advantage of the new policies. The guidance will be contained in three handbooks and will address the best public- and private-sector buying practices, so that Postal Service buyers can use both the most proven and the most innovative of these practices to meet the Postal Service's business and competitive objectives. All three handbooks will be issued during FY 99.

The Purchasing and Materials process management program, a Purchasing Review for Excellence Program (PREP) was initiated during 1998. PREP is a review tool designed to provide a results-oriented assessment of Postal Service purchasing and is centered on improving performance through review, feedback, and focusing on lessons learned and best practices. PREP will be pilot tested in FY 99, with full deployment scheduled for 2000. It will apply to all buying organizations.

### **c. Materials**

Responsible for the management of thousands of line items and the operation of three Material Distribution Centers, Purchasing and Materials continued to use process management tools to improve performance (see above), and partnered with other Postal Service organizations on several important programs and initiatives. Materials and Marketing have identified programs requiring inventory and distribution expertise and are currently examining whether Materials should assume operational management for them during FY 99. Programs affected by this transfer may include initiatives such as Pack and Send and the Stamps on Consignment and Stamps by Mail programs. Materials also worked with Retail to support the Point of Service program, and oversaw the distribution of more than 9 million Superman comics to American schools as part of the Celebrate the Century program.

One of the major objectives in 1998 was the Field Inventory Reduction effort. Using a number of processes, the ten Purchasing and Materials Service Centers worked with their customers throughout the Postal Service to better manage local stock inventories. As a result, more than \$25 million worth of inventory was removed from the local offices, with \$2.8 million returned to the MDCs and more than \$21 million worth of parts eliminated. Wholesale inventory management at the MDCs was improved, with a decrease of more than \$23 million in supplies, equipment, and repair parts, while 940 new items were being stocked.

### **d. Professional Development**

Purchasing and Materials manages one of the federal government's most extensive and rigorous professional development programs. In addition to the training required under the *CustomerPerfect!* program, buyers and material managers are expected to continue their education and professional development throughout their careers. Within the Purchasing and Materials curricula, all courses offered receive college credit recommendations from the American Council on Education. During 1998, more than 1,100 purchasing and materials professionals attended 81 courses.

Such courses are constantly being updated to reflect the ongoing changes and challenges in both purchasing and material management. During 1998,

four material management courses were revised to increase student participation and student learning through the use of case studies, exercises, group assignments, and problem solving. Two new courses were designed specifically for design and construction buyers: Introduction to Facilities Repair and Alterations Contracting is the first, and Contract Administration, Pricing and Claims the second. Both courses are one week long. Other customized courses offered included those concentrating on process management and those dedicated to supplier diversity.

Under Office of Government Ethics (OGE) guidelines, the Postal Service must provide designated employees with annual ethics update training. In 1998, a computer-based ethics training program was developed and provided to meet the annual update requirement. The program consisted of nine modules, each dedicated to ethics rules and ethical conduct. Employees were required to complete seven of the modules to satisfy the OGE requirement.

#### **e. Systems Integration**

In order to ensure continued operation at the turn of the century, all of Purchasing and Materials hardware and software systems were evaluated for potential Year 2000 (Y2K) impact. Of the 66 systems so evaluated, 15 have been made Y2K compliant and the rest are expected to be ready before the turn of the century. Purchasing and Materials also established a means of reviewing open information technology-related contracts and determining whether Y2K compliance actions are required. As part of the overall Postal Service Year 2000 effort, Purchasing and Materials is leading the effort to ensure Year 2000 readiness of the Postal Service's critical suppliers and the development of appropriate contingency plans.

Taking advantage of new and emerging technology is one of the centerpieces of Purchasing and Materials' Strategic Plan, and contract-writing systems are in place for the three commodity groups (supplies, services, and equipment; design and construction and related services; and mail transportation). SNAPS, the Strategic National Automated Purchasing System, which is used for supplies, services, and equipment and replaces the current Document Generator System, underwent

extensive testing and development during 1998 and will be fully deployed in FY 99. Purchasing and Materials has also joined 42 federal agencies in the sharing of suppliers' past performance information. Such information is essential in determining best value, and this new technology will help ensure that Postal Service suppliers have a proven record of quality performance. New technologies are also providing better sourcing opportunities, and two new systems, Business Opportunity Bulletins (BOB) and the Supplier Automated Database on the Internet (SADI), are discussed below.

#### **f. Major Purchases**

During 1998, the Postal Service made more than 47,000 contractual actions, totaling approximately \$7.6 billion. Among the more significant purchases was a series of contracts awarded to four suppliers, valued at approximately \$792 million, and calling for the operation of 18 Mail Transport Equipment Service Centers (MTESCs). The MTESCs will provide much more efficient handling and repair of this equipment, and the resulting service improvements and cost savings will be significant. A \$106 million contract was awarded for the production of 175 Next Generation Flat-Sorting Machines (NGFSMs). The new machines will sort oversized envelopes, magazines, catalogs, circulars, and some newspapers at twice the current speed (17,000 pieces an hour) and cost less to operate than existing Postal Service flat sorters. The new machines will be fully deployed by the end of the year 2000.

In the design and construction area, a contract worth more than \$45 million was awarded to renovate a 925,806-square-foot Sears building, which will serve as the Kansas City, MO, Processing and Distribution Center. The new building will provide more space for mail processing operations and improve service standards in the Kansas City area. Also significant was the award of a \$22.8 million contract for the design and construction of a new Processing and Distribution Center in Tulsa, OK, that will improve operations in that location.

As to mail transportation contracts, the two largest contracts awarded during 1998 went to major airlines. United was awarded a \$165 million contract, and Delta was awarded a contract worth more than \$140 million. The two are part of an overall system contracting effort that provides much of the Postal Service's airmail requirements.



#### **g. Energy and Environmental Contracting**

Partnering with Engineering's Environmental Management Policy organization, Purchasing and Materials continued to support the Postal Service's ongoing Energy Program. The former Utility Deregulation Oversight Committee, which was responsible for setting strategic focus on the deregulation of the electricity and gas industries, has broadened its scope and become the National Energy Program Committee. The Committee has full oversight of all Postal Service energy-related issues. Efforts in 1998 included the development of model statements of work and contracts for open-market purchases of natural gas and locally based purchases of electrical power. The shared energy concept continues to provide benefits in both cost savings and energy efficiency. Thirty-two shared energy contracts (which call for the retrofitting of existing facilities with energy-efficient products) have been awarded, and annual cost savings are estimated at \$6.3 million.

The National Environmental Purchasing Steering Committee, another result of the Purchasing and Materials-Environmental Management Policy partnership, also continues its efforts to further the Postal Service's environmental commitment. During 1998, the Committee developed model statements of work and contracts for recycling services and for hazardous waste disposal. Field organizations also had an impact in the environmental area. In 1998 a number of contracts were awarded for such things as the nationwide Integrated Retail Terminal (IRT) removal, paper and undeliverable bulk business mail recycling, and other environmental services. Last, the manager of the Windsor Purchasing and Material Management Service Center received the White House's Closing the Circle Award for his environmental efforts.

#### **h. Supplier Diversity**

The Postal Service's Supplier Diversity Program is a fundamental element of the Postal Service's corporate strategy to remain competitive and profitable in the marketplace. The program's purpose is to ensure small, minority-owned and women-owned businesses equal access to the Postal Service's purchasing opportunities.

Cultivating business relationships with organizations that sponsor and promote small business and businesses owned and managed by minorities and women has been an important part of the Postal Service's efforts, and this year an historic

new business relationship agreement was established with the United States Hispanic Chamber of Commerce (USHCC). This agreement marked an important step toward building stronger relationships between the Postal Service and the approximately 1 million Hispanic-owned businesses in the United States and Puerto Rico represented by USHCC.

Internal and external communications and training continue to be critical to the overall success of the Supplier Diversity Program. On the internal front, Purchasing and Materials developed and provided customized training to over 500 purchasing employees. The four-hour training course was designed to provide buyers with further knowledge on the benefits of supplier diversity. To assist buyers, suppliers, and industry trade organizations, Diversity Development produced and published a glossary of supplier diversity terms. The glossary was developed to provide internal and external customers and suppliers with terms that are unique to supplier diversity.

Outreach efforts to small minority-owned and women-owned businesses have long been an essential part of the Postal Service's Supplier Diversity Program, and are central to the Postal Service's external communications efforts. During 1998, coverage and sponsorships were coordinated for an estimated 200 trade, federal, Congressional, and special emphasis events. In addition, the Postal Service sponsored approximately 150 locally based events coordinated by cross-functional teams made up of Purchasing and Materials, Diversity Development, Facilities, and operational personnel. Such events are beneficial to both the supplier and the buyer community. Suppliers can attend educational seminars and workshops to help them in professional growth and learn how best to do business with the Postal Service. Buyers benefit from increased contacts with the supplier community and better understanding of their capabilities within a given field or product line.

Other outreach efforts include Diversity Development's partnership with the Century National Bank to sponsor a business opportunity networking session and awards luncheon for members of the Capitol Chapter of the National Association for Women Business Owners (NAWBO). This event provided women business owners with an information exchange session with key personnel from Purchasing and Materials. And, last, Postal Service information technology is becoming

increasingly important. The corporate Web site provides suppliers with a variety of information on contracting with the Postal Service and links to buying organizations nationwide. Two new Purchasing and Materials systems were introduced in 1998 to help suppliers gain access to Postal Service business opportunities. Using SADI, suppliers can register their companies in a database used by more than 1,000 buyers and 18,000 credit card holders to identify sources. BOB is an application used to electronically publicize requirements and distribute solicitations. Both of these applications will provide real benefits to suppliers interested in doing business with the Postal Service.

These efforts, and the commitment behind them, are being recognized. In 1998, the Postal Service received the Minority Enterprises Inc.'s "Corporation of the Year" Award given to the Rocky Mountain area corporation or organization for outstanding commitment to minority- and women-owned businesses. MEI represents more than 200 minority-owned businesses in the Rocky Mountain area and is the regional chapter of the National Minority Supplier Development Council. And, due to the efforts discussed above, the Postmaster General received the Annual Chairman's Award from the United States Hispanic Chamber of Commerce.

In bottom-line terms, the Postal Service's Supplier Diversity Program continues its long history of success. During 1998, more than 69 percent of contractual actions (representing more than \$3.5 billion) went to small businesses. More than \$275 million (representing 8.96 percent of contractual actions) went to minority businesses, and more than \$481 million (13.5 percent of contractual actions) went to women-owned businesses. In addition, the results in terms of numbers of contracts awarded and contract dollars awarded improved over 1997 for each category.

## 6 NATIONAL AWARDS PROGRAM FOR DIVERSITY ACHIEVEMENT

It is Diversity Development's goal to encourage and support the efforts of the U.S. Postal Service employees that (1) contribute to the acceptance of diversity within the workplace, (2) positively recognize our employee and customer populations, and (3) address the needs of every population we serve. In line with this mission, Diversity Development established a National Diversity Recognition Program in fiscal year 1996 to recognize managers and employees for their outstanding contributions to the diversity effort.

In 1997, the program was enhanced to include *CustomerPerfect!* objectives in the nomination and selection process. This added emphasis resulted in over 800 additional individual and team nominations for a total of 44 National Winners for 1997. The success of the 1997 recognition program was further identified as a Diversity Development "best practice" in the Aguirre Study, a study sponsored by the Board of Governors to look at opportunities to improve the diversity program within the Postal Service.

This year it was decided that the program should shift from a departmental focus to that of a corporate focus. Therefore, beginning with the 1998 program, awards were sponsored through the Management Committee. In keeping with the program's original intent, the awards program is aimed at providing employees an opportunity to recognize individuals and teams that have made significant contributions to encourage, promote, and celebrate diversity. The 1998 program resulted in over 2,600 nominations and 31 National Award Winners.

Recognizing and valuing diversity continues to be a business requirement and is key to enabling our core processes to attain *CustomerPerfect!* goals. Rewarding postal employees and managers for their support of and accountability for diversity initiatives will help the Postal Service remain a more inclusive, versatile, and productive organization.

## CHAPTER TWO

# Postal Operations

### A. Public Perceptions, Customer Outreach, and Mailer Liaison

#### 1 CUSTOMER FEEDBACK ANALYSIS

The Postal Service provides many methods for customers to register complaints or compliments about services, products, policies, and personnel. The feedback from these methods allows the Postal Service to identify problem areas and significant trends for management action. For 1998, the number of customer contacts through traditional methods of customer communications—letters, phone calls, and customer walk-ins—decreased. However, there has been a steady increase in the number of customer inquiries through the Internet, an alternative customer communications vehicle.

Through the Business Mail Entry Unit (BMEU) Proficiency Program, part of the Voice of the Employee initiative to enhance employee and Postal Service effectiveness, a nationwide program to measure proficiency and assess future training needs of BMEU employees was implemented in 1998. The scoring methodology used two measurement systems—Mystery Caller and Customer Event-Based Survey—to calculate a BMEU Proficiency Index. This index will be used to set 1999 improvement targets that positively promote the program's impact on Ease of Use Business under the Voice of the Customer initiative.

The Postal Service logged 435,443 customer contacts during 1998, a 20 percent decrease from the previous year. Of these, 89 percent were complaints, six percent were compliments, three percent were information requests, and two percent were suggestions from customers.

The decrease in customer contacts occurred across all ten Postal Service areas at a time when on-time overnight delivery and customer satisfaction scores were at an all-time high.

#### 2 CUSTOMER OUTREACH AND MAILER LIAISON

##### a. Consumer Programs

The Customer Advisory Councils (CACs) provide a unique opportunity for the Postal Service to stay in contact with residential customers—nationwide. There are about 2,000 CACs at the post office level, made up of a cross section of the community population and local postal officials. CACs provide a forum for discussing service issues, answering questions, and informing council members of new or changing programs, products, and services. Functional guidance and support for our CACs is provided by the Consumer Advocate.

The Postal Service developed a national complaint-handling process for the National Service Center (NSC) environment. The Postal Service has standardized the complaint-handling system with the district Consumer Affairs Offices currently linked to the Denver NSC. This system provides timely customer response and accurate complaint data between the NSC and the field. To establish connectivity with the NSCs and manage activities for the district complaint-handling system, the new version of the Field Consumer Affairs Tracking System (Field CATS) was deployed nationwide in 1998.

The Postal Service has reviewed the process for handling undeliverable or “dead” mail. There are currently three Mail Recovery Centers (MRCs) located in San Francisco, CA; St. Paul, MN; and Atlanta, GA. A cross-functional team visited the three sites and recommended short- and long-term strategies to increase the effectiveness of the mail recovery process and the efficiency of the three sites. These facilities became Headquarters field units reporting to the Consumer Advocate with the beginning of FY 99. Approximately 103 million letters/flats and 1.45 million parcels were handled at the three MRCs during 1998.

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In anticipation of Omnibus Rate Case R97, eight Implementation Readiness Teams (IRTs), composed of representatives from all functional areas of the Postal Service, and customer representatives when appropriate, were established in 1998 to ensure its successful implementation. Team representatives were responsible for communicating accurate information internally and externally to facilitate implementation readiness. IRTs were designed to spring into action on three crucial organizational levels—Headquarters, Field and District, and Special Teams. Each level of response was set in motion by an implementation process phase, triggered by the dates of filing, Postal Rate Commission decision, Governors approval, and Board implementation. Working together, these teams addressed specific implementation concerns related to Information Systems, Software, Parcel Post and Package Services, Strategic Planning, Technology, and Training. This comprehensive process of information sharing through the Postal Service and customer organizations represented an effective and stellar communications effort.

To raise levels of customer awareness and further promote customer outreach, BMEU personnel are now provided unique uniforms. Selected and designed with the active involvement of BMEU employees and union representatives, these uniforms not only distinguish BMEU personnel from other Postal Service employees, but also increase their visibility and availability to customers as on-site bulk mail information resources.

The Postal Service also realized significant breakthroughs in 1998 with the deployment of pilot systems in partnerships with our business customers. Aimed at building interactive exchanges of information and payment, the Direct Link Pilot Program accomplished its mission by demonstrating that development and implementation of electronic standards, which allow the submission of detailed mailing information in support of an electronic business partnership, is not limited by class of mail or by a particular type of preparation. Working closely with four designated pilot sites—Pacific Bell, Quad Graphics, Quebecor, and R. R. Donnelley—the Direct Link Program was able to clearly and consistently define the electronic interface requirements needed to support a true electronic processes partnership with our business customers and to serve as the infrastructural template of all Electronic Business Partnership Programs of the future.

With its foundation having been set through the collaborative efforts of the Direct Link Pilot Program, *PostalOne!* was created in 1998 to implement the electronic processes of the Electronic Business Partnership program at major mailer sites. At its AT&T pilot site in Charlotte, NC, *PostalOne!* identified five key electronic elements that represent the needs of our customers: documentation, verification, payment platform, transportation assignment, and information access. These five electronic elements now make up the implementation focus of *PostalOne!* Plans to implement one or more of the identified electronic elements in each of the 100 designated major mailer sites are ongoing.

#### **b. Customer Outreach**

During 1998, National Postal Forums were held in Las Vegas, NV, and Washington, DC. These Forums attracted more than 16,000 customers and exhibitors and focused on the mail, the world's most powerful and effective means of communication. Over 140 business sessions were held at each Forum. Sessions featured Mail Center Management, Package Services, Periodicals, Strategic Marketing, Postal Policy, and the Rate Case. Complementing the Forum's educational program was the exhibit floor, which featured more than 120,000 square feet of displays of the latest in mailing supplies, services, mail automation equipment, software, and computer hardware. Business mailers attend the Forums for information on mailing industry issues, trends, and opportunities; to learn about cutting-edge technology; to participate in information-packed business and educational sessions; to have access to Postal Service decision-makers; and for the networking opportunities. Today's Forums provide professionals with ongoing training in a rapidly changing industry and the opportunity to build the business partnerships between the Postal Service and its customers, to network with industry peers, and to talk directly with postal officials.

The Idea Forum, part of the National Postal Forum, provided an opportunity for customers to share their expertise on how the mail has helped them grow their business. All ideas were evaluated by a panel of Postal experts, and the best revenue-generating mailing solutions were showcased at the National Postal Forums.



The Mailers' Technical Advisory Committee (MTAC) provides the Postal Service with the opportunity to continue its strong cooperation with customer groups. MTAC has been a central focus for joint industry/Postal Service efforts to resolve issues relating to mail preparation, processing, and delivery for over 25 years. MTAC meetings provide the technical information, advice, and recommendations to the Postal Service concerning various aspects of the mail and the mailing industry. The new structure and process adopted in 1997 has helped the Postal Service and the mailing industry identify and solve issues more quickly and efficiently through expanded involvement and cooperation.

Over 300 Postal Customer Councils (PCCs) represent an estimated membership of nearly 300,000 people and serve as a valuable communication link between local postal managers and customers. PCCs resolve mailing/delivery problems, receive assistance in using postal services, and exchange ideas and suggestions to ensure efficient and economical mail service. PCCs identify local customer needs and develop solutions to mailer-related problems. They are led by industry and postal co-chairs and are composed of small-, medium-, and large-volume mailers. Through their educational and relationship-enhancing programs, PCCs continued to play an active role in satisfying customer needs and increasing customer profitability by reducing costs and/or generating additional revenues. A national Web site was introduced in 1998: [www.national.pcc.usps.com](http://www.national.pcc.usps.com).

The 1998 National Postal Customer Council Day was held in Columbus, OH. The event was broadcast live via satellite from the Athenaeum in Columbus. This was the first PCC Day that featured two Postmasters General on the dais at the same time. National PCC awards for excellence were distributed in eight categories to honor deserving recipients. Topics of discussion included customer satisfaction, postal operations, and the state of the Postal Service. The first Web site chat room was operated following the broadcast. The 1999 National PCC Day is scheduled for Los Angeles, CA, on March 9.

Customer Relations developed the Account Management Process to aid National Account Managers (NAMs) and Account Managers at the Districts who work with the Postal Service's most valued business customers. A field and

Headquarters design team, consisting of NAMs, Account Managers, Business Customer Relations Managers, and Area and Headquarters staff, developed the Account Management Process using process management techniques modeled after the *CustomerPerfect!* approach.

The Account Management Process, which was introduced to NAMs and Account Managers in March 1998, establishes six major steps to managing an account:

- Determine Customer Requirements
- Develop an Account Plan
- Create Customer Solutions
- Implement Customer Solutions
- Track Performance
- Celebrate Success

The process provides NAMs and Account Managers with tools to use and identifies indicators they and their managers should monitor to stay on track with their accounts. In a June 1998 Baldrige assessment report, the Account Management Process was cited as one of the strengths of the Postal Service.

Training employees to manage the needs of our largest business customers is one of the priorities for the USPS. Training programs were implemented for all levels of field account managers, NAMs, and managers of Marketing and Business Customer Relations. The National Accounts Management Conference in October 1998 further developed the knowledge and skills of the National Account management staff to understand and meet the business and mailing needs of highly complex businesses. The conference also highlighted the accomplishments of NAMs for the year in building customer relationships.

Critical skills training is multidimensional and provides newly selected employees with initial level skills and more experienced employees with in-depth and advanced skills. This program is being expanded to include all customer service representatives. The broader goal of this training program is to raise the proficiency levels and effectiveness of the entire field Customer Relations organization.

Field marketing and sales managers were provided interview guides and a personality assessment test to assist in selecting the best qualified applicants for Account Manager positions.

The Customer Relations Resource Guide was sent to all NAMs and Account Representatives. This binder included information to help identify and convert opportunities into sales, attaining customer satisfaction and revenue goals. The modular format allows the addition of updated information and materials on an ongoing basis. Included in the first edition were sections on Skills & Strategies, Products & Services, Support Systems, and a Literature Guide that lists where additional materials can be requested either over the phone or via the Customer Relations Web site.

A new version of the Postal Service's Powersell comparative financial analysis and proposal writing software was developed for national and local Account Managers. This software allows Account Managers to quantify, through comparative financial analysis, the benefits of using Postal Service products and services. The new version adds the capability to perform comparative financial analysis for International and Domestic Bulk Mail Center (DBMC)/Manifest products and provides for enhanced proposal generation. The first stage of a national Powersell training effort has been completed. Countrywide training will proceed once the software is certified for Postal Service systems. This software will continue to be an excellent tool for assessing and taking advantage of sales opportunities. Powersell is officially Y2K compliant.

An internal Web site serves as a channel for knowledge and information exchange to the field Customer Relations organization. The Web site provides the field sales and customer service personnel staff with the latest policy and information messages from Headquarters, access to relevant market research and other analytical data, online access to sales support materials, an interactive bulletin board for sharing successes and customer solutions, access to internal databases, and links to other relevant Web sites.

Sales Support Materials were provided to support the field sales force. These include success stories, product information sheets, access to databases such as Hoovers Online, industry research information, and publications such as Selling Power. All materials are available online, through the Sales Force Inventory System located on the Customer Relations Web site. The development of a Sales Satisfaction Index, which is designed to identify those sales support materials that provide the most added value, is being planned.

A database that provides current contact information for all field Customer Relations employees is currently under development. Once implemented, the database will be kept current by field employees, and contain name, phone, fax, cellular number, pager number, address, job title, and job location. This will be used to send sales support materials, as well as electronic messages.

Sections of the Baldrige Assessment were written and documented resulting in the expansion of customer relationships as a criteria in the new 1998 Baldrige Award. Customer Relations developed and began measurement of process indicators related to VOB, VOC, and VOE *CustomerPerfect!* indicators. Customer Relations provided the field with Account Performance Reports that consist of revenue and customer satisfaction process indicators and developed a new Web application to make this information more widely available and more timely. Business Reviews were initiated, and reports from the reviews were initiated for Postal Service senior management.

Customer Relations introduced "AccountNet," a new tool to support our account assignment process. This tool, built on the Postal Service's Intranet, fully supports and documents the account assignment decision process. With enhanced account assignments, we realize improved sales efficiency and effectiveness through better focus, improved accountability through clarity of responsibility, and improved service to the customer through better account management.

Account Revenue Planning is a tool on the Intranet intended to help the field develop revenue plans for National and Premier Accounts. Account Representatives and NAMs are responsible for developing the total revenue plan for each of their assigned Premier and National Accounts. Data for a Premier or National Account are displayed under the District or Area where the account is managed. Revenue shown for each Premier or National Account included in the database reflects a roll-up of that account's identified managed mailing sites' revenue.

A National Account Loyalty Program was developed, it includes corporate messaging on Postal policies and programs from the Postmaster General, to National Account CEOs, as well as the Eagle Report from the Vice President, Customer Relations, to executive contacts within the National Account customer segment. Communications are intended to provide our most valued customers with relevant information and enhance the role of the NAM.

An Industry Stakeholders Process was developed to facilitate the successful launching of new postal products and initiatives by working with industry associations and companies that could potentially be impacted by rollout. The Business Management Committee provided risk assessment of initiatives in the pilot.

The Postal Service's "Team of 50" Account Managers based in state capitals around the country successfully brought many creative mailing solutions during 1998 to state and local government agencies, helping them to better achieve their many and varied commitments to the country's citizens. These Account Managers are point persons for the Postal Service's Customer Relations commitment to tap into the full resources of the Postal Service to provide better service to citizens at less cost. Successes in this effort were recorded by the following: raising non-tax revenues for education through state lotteries (IL), promoting tourism domestically and internationally (AR), helping make the electoral process more efficient and using Ballots by Mail to generate greater voter turnout (AL and Orange County, FL respectively), providing a model for effective mail consolidation (TN), and pioneering the latest in "print to post" advancements (OR). "Working Together to Serve the People" remains the theme for this initiative.

The first-ever State Mailers Conference was held in Salem, OR, in the fall, which kicked off the first of what will be an annual association meeting of states taking the initiative to share their successes and working in partnership with the Postal Service. Some 18 states joined in this conference and it is expected to grow each year. The state of Tennessee was selected to host the next meeting of this group.

During 1998, the Postal Service partnered with election officials to develop a user's guide to help state and local election officials to become more successful in using mail to conduct voter registration and ballot elections. This guide is a result of a unique collaboration among the Joint Election Officials Liaison Committee (JEOLC), The Election Center in Houston, TX, and the Postal Service.

As part of this collaborative effort with the elections community, the Postal Service has also created a new, trademarked "Official Election Mail" logo. This is the first logo ever developed by the Postal Service for a group of mailers, and it signifies to voters and Postal employees the importance of official election mail. The fact is that, by introducing this logo, the Postal Service is helping to

bring democracy into the home of every American. The user's guides were distributed to all appropriate Postal Service representatives and to thousands of election officials around the country.

During 1998, the Postal Service worked to enhance the National Postal Forum Track for Colleges and Universities by offering a wide selection of professional and useful business sessions and industry exchanges. Industry representatives from the National Association of College and University Mail Services and National Association of College and University Business Officers were active in the MTAC and laid the groundwork for what should be a productive FY 99. Of special interest is the commitment to form a task force consisting of industry and postal experts who will develop a "how to" kit geared toward the needs of university and college mail room managers. The kit will enable them to use the mail more efficiently and to achieve even greater success in serving their various constituencies.

The Business Service Network (BSN), a business customer service process, is a national network of Customer Relations personnel dedicated to service our national and premier account customers. The BSN is based on quality principles and uses cross-functional customer support teams to address the service needs of commercial customers. This process enables the Postal Service to locally track, analyze, and measure performance and to take a proactive approach to service.

During the past year, the BSN tested processes in the Tennessee District. Here the lessons learned provided the basis and impetus for improving the BSN design, which was later successfully tested in the ten Districts in the Allegheny Area and the major metropolitan cities of San Francisco, Dallas, New York, and Chicago. There are over 12,600 accounts in the BSN nationwide, and over 5,000 customer issues are handled on a monthly basis, with 90% of all issues being handled at the Performance Cluster level. Currently, the BSNs exhibit a customer service resolution rate of over 96.4% nationally with a timeliness factor of 88% resolution within a 24-hour period.

A Fall Mailing Season Service Plan was assembled and disseminated that included a BSN Customer Support Team at every District and Area as well as identification of BSN Customer Service Representatives to coordinate network efforts.

Business Partners represented the customer in the Fall Mailing Season planning process, providing forecasting data, including key customers in the planning process; implementing field focus groups; and providing ongoing feedback to Operations Support on customer concerns and recommendations. This effort emphasized open communications as a key to problem resolution, utilizing the BSN as a pivotal element. In conjunction with Operations Support, a Drop Shipment Appointment early warning system was developed to meet customers' need for accurate and timely information on plant conditions. This process allows Business Partners an opportunity to adjust mail entry to achieve their goal of timely delivery.

Business Partners established a process management work group made up of key Business Partners and major customers, Operations Support, Marketing Systems, and NAMs. The objective of this work group is to understand the overall process for design, printing, transporting, distributing, and delivery of Standard Mail (A). The group is utilizing process management techniques to identify opportunities to reduce variability in the delivery of Standard Mail (A) by methodically mapping the process, selecting a measurable indicator, and measuring the results of improvements. The group is also exploring opportunities to utilize available technology to improve the overall process.

The Headquarters BSN, under the direction of Business Partners, developed a process to conduct weekly proactive calls to National Accounts and created a report for Senior Management and the Areas to share the results. These weekly calls have served as another method for us to keep in contact with this valuable segment of our customer base.

A national parcel consolidator work group has been established to explore opportunities to improve service and grow parcel revenue through the services of our Business Partners. National sales policy and consolidator/Postal Service sales strategies are discussed. An updated consolidator database has been established and consolidators have been briefed on rate change impacts and operational issues. This group will continue to work on service and revenue issues as well as opportunities to reduce operational cost for both the Postal Service and the industry.

The Business Partners printers' work group addresses the concerns of the major producers of Periodical Mail and Standard Mail (A). This group

has been instrumental in making changes to the Drop Ship Appointment System (DSAS), the exchange of mailing data, establishment of mail make-up delivery guidelines, and sharing of information to facilitate the Fall Planning process. The active participation of this group has been an integral part of the success of the Fall Mailing Season.

We were a founding member of the Paper Com Alliance, an organization that promotes the value and use of hard copy communications. In conjunction with Market Research, we promoted and supported joint research projects such as the Customer Value Analysis study. A current project, the Intelligent Envelope Study, is being conducted to explore new and innovative technology that can be used to add value to mail. This organization continues to grow with a current membership of more than 21 members, such as the Advertising Mail Marketing Association, the Envelope Manufacturers Association, American Forest and Paper Association, Hallmark Cards, Pitney Bowes, Dupont, Direct Marketing Association, Dow Chemical, and the major paper producers in the U.S. PaperCom, and has become a worldwide entity, conducting the first World PaperCom in June 1998.

**Expedited/Package Services.** After a developmental year in 1997, Expedited/Package Services (E/PS) was formalized in January 1998 to serve as the focal point for the Postal Service's commitment to reenergize its efforts in the package delivery market.

Postal Service employees have been delivering packages since colonial times and have pioneered a number of processes in the market, including the creation of Parcel Post, Express Mail, and, in recent years, Priority Mail.

The E/PS mission is to position the Postal Service so that once again it is not only the trend-setter in the package delivery market but also the best customer value serving everyone, everywhere, every day. In order to move the Postal Service in this direction, E/PS has developed a business plan keyed to the four strategic objectives of features, price, service, and image.

Working with other functional units within the Postal Service, E/PS has been developing strategies intended to enhance the growth and development of Express Mail, Priority Mail, and Standard Mail (B) also known as Parcel Post. Extensive and exhaustive studies clearly indicate that these product offerings hold the greatest potential for significant revenue and volume growth as the Postal Service moves toward the 21st century.



In fact, all Postal Service package delivery product lines showed strong and sustained growth patterns during the past year, and in order to build on that success E/PS is developing programs that will offer the parcel customer:

- the lowest published rates,
- reliability and consistency of service,
- up-to-date shipping information, and
- brand integrity.

To these ends, E/PS has been working to create awareness in the marketplace, particularly among high-volume shippers, of the significant work sharing discounts that became available on January 10, 1999, as a result of the R-97 Rate Case approved by the Governors in mid-1998. These discount opportunities are intended to allow customers to take advantage of the inherent strengths of the Postal Service's distribution networks by increasing capacity utilization at Destination Sectional Center Facilities and Destination Delivery Units. It is expected that the already growing portion of the Postal Service's ground parcel business will increase as a result of these innovative offerings.

The Information Systems division of E/PS has spent much of 1998 deploying a nationwide delivery confirmation system that will be available to customers in March 1999. A \$704 million Board of Governors-approved budget is allowing for the installation of necessary databases and the distribution of 300,000 hand-held scanners to Postal employees in every locality.

When this new service is in place, Postal Service parcel customers will have a system that will:

- significantly reduce fraud,
- provide verification of delivery,
- improve inventory management, and
- be easy to use.

These technological advances will be further enhanced when in May 1999, a signature confirmation service will become available, thereby enabling the Postal Service to offer its customers additional value-added information solutions.

The Priority Mail Processing Center (PMPC) network has been a key factor in the growth and development of the Postal Service's package delivery business. Phase 1, an East Coast-based package-handling network, is now fully operational, and its continued progress is being regularly reviewed by the staff and managers in Operations Support and E/PS.

The Postal Service's Priority Mail product continues to dominate the two- to three-day package delivery market, and part of that success has been attributed to the highly successful "What's Your Priority?" advertising campaign. National recognition was focused on the campaign when the New York chapter of the American Marketing Association selected "What's Your Priority?" as a 1998 winner of an EFFIE award, the advertising industry's equivalent of an Oscar.

The judging for an EFFIE is based on creativity and performance in the marketplace. The ad's success has been directly linked to the 16 percent increase for Priority Mail in volume share.

In fact, the Priority Mail product has been identified in the retail community as one of high quality and value, and such prestigious outlets as Nordstrom, The Catalog, and The Home Shopping Network have entered into co-branding agreements with the Postal Service for its use.

Members of the E/PS management team were also recognized for outstanding performance in 1998. Dave Shinnebarger, Manager of Marketing and Strategy, was named "Communicator of the Year" by the New York Business Marketing Association, and Julie Rios, Manager of Information Systems, received the George Shannon Award from the Parcel Shippers Association.

During the year, the Postal Service experienced parcel growth volume increases in all its rate categories. Compared with 1997, Express Mail grew 4.1 percent; Priority Mail, 9.0 percent; and Standard Mail (B), 12.5 percent. E/PS management expects these trends to continue in 1999.

### **c. Core Business**

In 1997, a Core Business function was created within the Marketing Department. The purpose of the unit is to determine the critical needs of customers in each of the three major businesses and translate those requirements into improved or new services that will ensure that the Postal Service continues to meet its mandated responsibilities into the 21st century.

About 85 percent of Postal Service revenues come from its First-Class Mail, Periodicals Mail, and Standard Mail (A) categories. These services represent the fundamental constitutional mandate to bind the nation together, providing a unique way for every business and citizen in America to conduct business and personal communications. Until recently, the Postal Service did not focus marketing attention on these core businesses.

First-Class Mail is a fundamental part of the financial system of this country. About nine trillion dollars, worth of checks are in the mail each year. Although facing intense competition from electronic substitutes such as Electronic Data Interchange (EDI), Electronic Funds Transfer (EFTS), Direct Debit, and Home Banking, most businesses and households will continue to rely on the Postal Service for most of their bills and payments for the next five years. Over the past several years, the Postal Service has increased overnight service performance and has committed to extend that improvement into second- and third-day service areas with a particular emphasis on payments. The Postal Service is developing programs that increase security, privacy, and confidence in the mail as a payments system, and several pilots will be tested in FY 99.

Periodicals Mail also represents a strong link with U.S. historical tradition and the public service responsibilities of the Postal Service. Special interest magazines, newspapers, and newsletters have been able to reach diverse subscribers throughout the United States and the world. The Postal Service will renew its ties to the publishing industry and increase its focus on providing reliable service at reasonable rates.

Standard Mail (A), which largely consists of direct mail and catalogs, has grown into one of the largest and most successful forms of advertising. It provides advertisers with additional choices to reach their customers, and has proven quite effective in increasing store traffic and generating sales. The Postal Service will continue to work on improving service consistency and predictability, and will work with mailing industry partners to introduce programs in FY 99 that make it easier for small businesses to advertise in the mail. The Postal Service will also increase information provided to mail advertisers about the status of their mailings.

Core Business will work with Customer Relations and Tactical Sales in developing focused programs around the critical needs of key market segments: Financial Services, Retail, Mail Order, and Publishing industries. Recent legislation in the telecommunications and utility industry has also created new opportunities for the Postal Service to offer assistance in informing customers of changes and building relationships with those customers. The Postal Service will introduce a number of specialized programs designed to meet the different needs of these industries.

Special Services are the value-added features offered by the Postal Service for users of core businesses to prove delivery, protect their mailings, send money, or have optional ways to receive their mail. While Special Services include more than 20 different services for fees, the most commonly used are Certified, Registered, Insured, and C.O.D mail; Return Receipts; Postal Money Orders; and Post Office Box service. During 1998, the Postal Service has focused more attention and effort to help customers and employees better understand these services that can be used to upgrade the core services such as First-Class letters and expedited and package services. Customer information in the form of user guides has been placed in post offices to better explain these services, and retail clerks have received specialized training to teach them how to offer these services along with the core services transactions. These initiatives will improve customer's ease of use as tracked in the *CustomerPerfect!* process.

Core Business also supports the Postal Service through market research, analysis, and planning. Strategic research programs track competitors and market developments in each of the Postal Service's businesses: Correspondence and Transactions (Bills, Statements, Payments, Business Communication, and Personal Correspondence); Publications; Advertising; Package Delivery; Retail; and Special Services and Specialty Markets. The primary focus of this research is to develop a clear picture of customer requirements and competitive position for *CustomerPerfect!* planning and to provide better information for management decisions on priorities and resource allocation. Market research also assists in assessing customer response to Postal Service product or service initiatives, and in tracking the effectiveness of Postal Service marketing programs.

**1. Corporate Call Management.** Corporate Call Management (CCM) was created in 1995 with the vision of providing customers easy access to a broad range of services, 24 hours a day, seven days a week. At that time, there were fragmented efforts associated with this, but they focused on one of two areas: they were either local/stand-alone centers for a small geographic area, or they performed a singular functional activity such as Comprehensive Tracking and Tracing. Prior to the introduction of CCM Blockage Rates of 50 percent and higher, busy signals or no answer

for incoming telephone calls were not uncommon in metropolitan post offices. The local post offices received 80 million calls annually. CCM represented a consolidation of these efforts to increase customer satisfaction.

We created two National Learning Centers located in Tampa, FL, and Phoenix, AZ, that began operations three years ago, offering service to our customers 24 hours a day, seven days a week. They have evolved into the template model for the National Service Centers (NSCs). It is through their operation that we have been able to compile information vital to the design of the NSCs. Denver, the first of up to six NSCs, began accepting calls on December 2, 1996. Currently, the call center network (two Learning Centers and Denver NSC) takes an average of more than 115,000 calls each day regarding general information (e.g., ZIP Codes), service transactions (e.g., vacation mail holds), and problem resolution 24 hours a day, seven days a week.

The call centers handle inbound customer inquiries from the Pacific, Western, and Southeast Areas. In addition, all three centers manage calls for national programs such as Comprehensive Tracking and Tracing (CTT) and the Postal Answer Line (PAL). In January 1999, we will open the second National Service Center in Kansas City. This will allow the network to expand both geographic coverage and services offered. Specifically, it will enable the network to handle all tracking calls for Delivery Confirmation for Priority Mail.

Over the next three years, up to four additional NSCs will open. This network, when fully operational, will handle approximately 200 million calls annually from across the nation and will offer a broad range of services to consumers, small businesses, and nonprofit organizations.

#### **d. Sponsorships**

**USPS Pro Cycling Team.** 1998 was the third year of title sponsorship of the team, and it was a very successful year. Through relationships developed with team ownership and with co-sponsors, Tactical Marketing and Sales Development generated over \$2.5 million in new sales. Much of this was business captured from competitors in the package business.

Additionally, road races in several major markets provided venues for community outreach, for positive public relations events involving the team and the Postal Service, and for employee appreciation events involving as many as 2,000 postal employees and family members.

On a competitive level, the team won major domestic races in the L.A./San Diego, Philadelphia, Austin, and New England markets, and finished third in the prestigious Tour de France. The resultant positive coverage in domestic broadcast and print media provided a strong boost to the image of the Postal Service as a winning organization.

The title sponsorship has been retained for FY 1999.

#### **e. Priority Mail Network**

The Postal Service successfully implemented Phase 1 of the network by opening ten Priority Mail Processing Centers (PMPCs). Expansion of the network may be considered in the upcoming year.

#### **f. Vehicle Tracking, Analysis, and Performance System (VTAPS)**

The Postal Service's 21 BMCs are sites of extensive van activity. At most sites the control and monitoring of these vans are accomplished via a manual card system and voice communication. This environment routinely creates delays in van unloading and increased transportation costs. The VTAPS will emulate these manual activities in a computerized environment with added new recordkeeping and workload management functionality to support and enhance BMC operations. The system will also be integrated with other existing logistical systems to reduce redundant data entry. The integration with the DSAS will also provide customers real-time status of their vans at the BMCs.

### **3 ADVERTISING**

In 1998, the Postal Service continued its expanded use of broad and targeted marketplace communications via a full range of advertising media. Once again, four advertising agencies were used—Draft Worldwide, Foote Cone & Belding, Frankel, and Young & Rubicam—to support our diverse needs across products, services, and media.

The year 1998 also saw the continuation of several of our successful campaigns. The highly visible and effective "What's Your Priority?" advertising for Priority Mail was expanded to include international expedited products as well. We broadened the reach of our campaign, "Direct Mail Delivers," promoting the effectiveness of direct mail as a strategic marketing tool for building business.

We also implemented several important initiatives designed to improve the effectiveness and efficiency of the advertising program. While the full impact of these initiatives will be realized in FY 99, significant efforts included:

- a formal, quantitative advertising agency evaluation program;
- retaining an expert consultant—independent of the advertising agencies—to determine the effectiveness of proposed advertisements prior to campaign launch as well as measuring in-market performance of advertising efforts;
- new budget controls that put a cap on individual product line spending at 85% in order to ensure that budgets were not exceeded. Moving toward the long-term solution of managing the budgeting and invoicing aspect of this program, performed the developmental work for an Internet-based system to be introduced in early FY 99;
- an exploratory effort to create a corporate brand framework and thread that will integrate and unify all communications within a single theme while maintaining the integrity of individual business efforts; and
- an in-store messaging program consisting of six specific drive periods that will manage the distribution and overall communications that occur in our nearly 40,000 postal facilities nationwide.

1998 marked the first year that the Postal Service launched the Specialty Markets advertising program, to build upon the success of multicultural initiatives conducted during the previous year. The objective of the Specialty Markets program was to build awareness and generate trial/re-use of Postal Service products and services among African-American, Asian, and Hispanic consumers. The Specialty Markets program not only accomplished its objectives, but also helped forge a positive relationship between the Postal Service and ethnic communities it serves.

The 1998 Specialty Markets program included the following initiatives.

#### **a. African-American**

**1. Money Orders.** In 1998, the Postal Service launched a money order pilot campaign targeting African-Americans in the Philadelphia market. The purpose of the campaign was to test the effectiveness of targeted advertising on money order sales and to evaluate it as part of an overall pilot that also incorporated Hispanic and general audiences. The marketing and advertising effort included spot radio, outdoor, and local newspapers. The campaign increased awareness and encouraged

the trial and re-use of Postal Service money orders. Although the campaign began with an initial test in Philadelphia, it quickly rolled out to five additional markets due to the significant increase in money order sales at post offices with high African-American traffic.

**2. Stamps.** Three stamps issuances featured African-American themes:

- Kwanza
- Madam C. J. Walker
- Gospel Singers

Advertising was done in conjunction with each stamp launch to increase awareness of the series and encourage purchase and retention of the stamps and stamp products. This was accomplished through national and local media and public relations support of field events.

#### **b. Asian**

To reach the growing Asian market, the Postal Service developed cross-cultural marketing and communications services.

Until 1998, the Asian business community was a largely untapped market for the Postal Service. There was very low awareness of the range of products and services the Postal Service offers. In response, the marketing program bundled the various Postal Service products based on consumer needs and positioned the Postal Service as a business partner, encouraging trial of products by leveraging the savings through its low cost offerings for specific business needs.

The Asian Business Campaign was a multi-faceted in-language national campaign targeted to Chinese and Korean small business owners in the United States. The campaign, which included television, print, and direct mail, was designed to create awareness of Postal Service—expedited services, generate trial and re-use of Postal Service—expedited services, and capture leads for future dialogue. The campaign was a huge success, exceeding goals by more than 70%.

#### **c. Hispanic**

**1. Dinero Seguro.** In 1998, the Postal Service continued testing Dinero Seguro, an electronic money transfer service to Mexico, which offers the largest international money-by-wire opportunity for the Postal Service. Dinero Seguro is positioned as a fast, safe, and guaranteed electronic money



transfer service. By creating in-language communications that spoke to the cultural nuances inherent to Hispanics of Mexican origin, the Dinero Seguro program allowed the Postal Service to build awareness of the brand and generate revenue by providing a valuable service to that community.

**2. Business Outreach.** Hispanic-owned businesses are one of the fastest growing segments in the United States. These firms present an important market opportunity for the Postal Service. In 1998, the Postal Service sought to reach Hispanic business owners and decision-makers through a combination of advertising and direct mail in English and Spanish. Additionally, the Business Relationship Agreement between the Postal Service and the U.S. Hispanic Chamber of Commerce served as a critical channel of communicating information about postal products. This agreement, which won the Postal Service the USHCC's Chairman's Award, serves as the primary platform for achieving marketing, purchasing, and diversity objectives with the Hispanic business community.

**3. Cinco de Mayo.** In the spring of 1998, the Postal Service launched a Cinco de Mayo stamp commemorating the Battle of Puebla. The issuance of this stamp created an immediate opportunity to promote stamp retention within the Hispanic community, as well as generate goodwill and enhance the Postal Service image. The Postal Service utilized an integrated communications plan, which included television and point-of-service materials, to create awareness of the stamp by implementing an effort that educated Hispanics and capitalized on the Mexican holiday. The messaging served to encourage consumers to visit post offices and community events to request and purchase the new "5 de Mayo" stamp.

The success of the 1998 Specialty Markets program has demonstrated that there is a real and viable business opportunity in targeting multi-cultural audiences.

#### **4 STAMP SERVICES**

##### **a. Stamp Program**

In 1998, the Postal Service continued its development of a more diverse and balanced stamp program. The program included the issuance of a stamp commemorating one of the wealthiest women entrepreneurs of the 1910s, Madam C. J. Walker. It also included Cinco de Mayo, the third Holiday celebration stamp, and 20 stamps

featuring art works spanning four centuries of American art from the 17th century through the mid-20th century. A stamp commemorating the 50th anniversary of the Berlin Airlift was issued in Berlin, Germany. The highlight of the 1998 stamp program for serious collectors was the Trans-Mississippi special souvenir sheet featuring the original nine stamps commemorating the 1898 Trans-Mississippi and International Exposition held in Omaha, NE. A stamp depicting Alfred Hitchcock was issued as the fourth addition to the Legends of Hollywood series. John Berkey's Klondike Gold Rush stamp illustrated the arduous journey made by tens of thousands of Americans who dreamed of "striking it rich" in the Klondike region of the Canadian Yukon. In the continuing effort to create awareness of important health and social issues, stamps were issued for Organ & Tissue Donation and Philanthropy. Additionally, we issued our very first semipostal stamp for Breast Cancer Research. For National Stamp Collecting Month, we introduced five designs featuring one of the most popular stamp subjects, Space Discovery.

##### **b. Self-Adhesive Stamps**

Throughout 1998, the volume and number of issues, designs, and formats of self-adhesive stamps continued to increase. In FY 94, only 8% of the stamp program was self-adhesive; by the end of 1998, just five years later, self-adhesive stamps represented approximately 85% of the total stamp program. In fact, stamp booklets are no longer produced with water-activated adhesive. Beginning with the FY 99 program, all mail-use stamps, with the exception of special orders, will be self-adhesive. Because many customers still prefer gummed stamps, we will continue to produce some commemorative panes as water-activated stamps. During 1998, the success of our self-adhesive stamp program led several foreign postal administrations to request copies of our self-adhesive stamp specifications to use as a benchmark in starting or increasing production of their own self-adhesive stamps. Representatives of foreign postal administrations made personal visits to the United States to visit our stamp production facilities and discuss our experiences in developing our self-adhesive stamp program.

In FY 99, we will begin production of linerless self-adhesive coils. A special release coating on the face of the stamps prevents them from sticking to one another while coiled. There is no backing material to dispose of; customers need only tear each stamp off the roll and affix directly to a mail-piece. The linerless stamps offer the same advantages as previous self-adhesives but without the paper waste, which translates into less paper to recycle and a cost savings of millions of dollars a year in materials and production.

During 1998, we issued new contracts to our private-sector printers. By developing new and innovative product lines, consistently monitoring performance standards, enhancing quality control at all supplier plants, and calling for lower prices, we have increased supplier competition. Consequently, as quality and delivery standards and self-adhesive quantities have increased, production lead times and costs have decreased—yielding an FY 99 cost per thousand of at least 15 cents less than in 1998. This difference translates into savings of at least \$2 million for an average program of 40 billion stamps a year.

#### **c. National Postal Museum**

Stamp Services is responsible for the coordination and oversight of all activities and financial processes associated with the agreement between the Smithsonian and the Postal Service which established and perpetuates the museum. We continue to support the National Postal Museum's goal of increasing public awareness of philately and America's postal history. We are working with Smithsonian representatives to update the agreement to reflect current operational practices and to ensure financial stability to support the museum's mission.

#### **d. Direct Marketing**

The *USA Philatelic* catalog continues as the major mail order vehicle for stamps and stamp products fulfilled through the Stamp Fulfillment Services (SFS). A major portion of the total philatelic mail order sales revenue is attributable to the *USA Philatelic* catalog. Catalog sales revenues are expected to exceed \$57 million for 1998. Based on customer ZIP Codes, all sales are credited to each customer's local office. Through the catalog, field offices receive unplanned philatelic revenues from SFS, which require no funding and no field resources. The catalog also contributes to increased philatelic purchases at post offices. Publication 9 ("free catalog" brochure) added

more than 450,000 customers to our database in 1998. From these direct marketing efforts we have realized an increase in customer responses, volumes ordered, and revenue per catalog.

#### **e. Youth Program**

Stampers®, which was launched in October 1996, is a subscription program with the primary goals of generating interest in stamp collecting among children between the ages of 8 and 12 and sustaining and growing the hobby. During the course of the year, children enrolled in the program received several publications about stamps (e.g., *Stampers Cool-lectibles* magazines, posters, calendars). The Stampers Starter Kit and Stampers Saver Cards—the cool new way to collect stamps—are the foundations of this product line. Cards are what kids collect today and Stampers Cards provide the perfect blend of the traditional and contemporary. The program launch in October 1996 was a tremendous success, and to date, we have over 1.8 million kids enrolled in the program. In June 1998, the program won the prestigious GOLD EFFIE in the highly competitive children's product category. Stampers has been integrated into our National Stamp Collecting Month Campaign, Mega Event Stamp Shows, and Postal Retail Stores and this year will be on our Web site. Bugs Bunny remains the program's ambassador.

#### **f. Celebrate the Century**

Since February 1998, the Postal Service has issued four sheets of 15 stamps commemorating the first four decades of the 20th century. This program includes a sheet of 15 stamps commemorating each decade of the 20th century. Subjects for the 1900s through the 1940s were selected by the Citizen's Stamp Advisory Committee (CSAC). Through a nationwide balloting process, Americans have selected the stamp subjects for the 1950s and 1960s. Voting for stamp subjects for the 1970s ended September 30. Voting for the 1980s will take place in February 1999, and voting for the 1990s will take place in May 1999. By involving the American people in selecting images of their era to commemorate the century, we hope to enhance the hobby of stamp collecting and increase the retention of commemorative stamps. The five categories for balloting are arts and entertainment, lifestyles, people and events, science and technology, and sports.

#### **g. Looney Tunes**

On April 27, 1998, we issued the Sylvester & Tweety stamp as the second in a series of Looney Tunes characters we plan to issue over the next few years. Based on an agreement between the Postal Service and Warner Bros. granting us exclusive, royalty-free rights to these characters, we plan to use Looney Tunes character stamps to reinvigorate stamp collecting among kids. We view the Looney Tunes characters as a catalyst to reengage kids in the hobby of stamp collecting.

Selected radio stations across the country ran "promotional" spots for the Sylvester & Tweety stamp issue. The "value" of the radio promotions was approximately \$197,000 with 770 mentions. Media went better than anticipated, with coverage at the level of the Bugs Bunny stamp event in April 1997. We had national coverage in newspapers including a color placement in *The New York Times*.

Stamp Services hosted a Sylvester & Tweety event at the National Postal Museum on May 2, 1998. The museum had approximately 600 visitors to the day-long event. Sales credited to account identifier code (AIC) 097 (sales of Looney Tunes stamps only) is in excess of \$30 million.

#### **h. International Sales Program and Stamp Exhibitions**

Since 1978, the Postal Service has had contractually established sales representatives in foreign countries who market U.S. stamps and philatelic products within their territory for collecting purposes. In addition, six postal administrations began selling U.S. stamp issues in 1994. Five new contracts were awarded and became effective on January 1, 1998, in the European Union to broaden sales territories and increase competition among agents. In addition, first time stamp contracts were awarded for the sale of U.S. stamps in Mexico and Thailand. Although Asian financial problems have affected the Thai economy, initial stamp sales have been very promising. In 1998, the Postal Service participated in two international special events. The Mexican Postal Service and the U.S. Postal Service jointly issued the Cinco de Mayo stamp on April 16, 1998, in Mexico City and San Antonio, TX. The Berlin Airlift first-day ceremony was held at Tempelhof Airport in Berlin, Germany, on June 26, 1998. The media coverage of this event was extensive.

Since 1997, the International Stamp Program has offered *USA Philatelic* customers the opportunity to purchase selected stamp issues from other

postal administrations. Through this segment of Stamp Fulfillment Services *USA Philatelic* direct marketing program, known as the "International Collection," we have expanded our reach to include the postal administrations of Canada, Ireland, Great Britain, Mexico, Australia, Israel, and the United Nations. Customer response to these new product offerings, which provide an opportunity to augment and diversify their collections, has been overwhelmingly positive.

The partnership of the American Philatelic Society (APS), the American Stamp Dealers Association (ASDA), and the Postal Service co-sponsored four highly successful domestic stamp exhibitions in 1998.

We have also begun preparation and promotion of World Stamp Expo 2000, the International Philatelic Exhibition scheduled for July 7–16, 2000, in Anaheim, CA., which will be sponsored and conducted by the Postal Service.

#### **5 TACTICAL MARKETING AND SALES DEVELOPMENT**

Tactical Marketing and Sales Development (TM&SD), created in the spring of 1997, grew from the idea of creating a dedicated sales force as a strategy for expanding the Postal Service's customer base. 1998 marked TM&SD's first full year within Marketing.

TM&SD is a national sales force designed to build mutually beneficial relationships between the Postal Service and various customers. These relationships are an attempt not only to generate new business, but also to assist in determining industry needs so the Postal Service can match product development to customer requirements. TM&SD's goals are carefully defined and its results closely monitored. This sales force is tasked to find new revenue opportunities anywhere in the country, focusing on high-contribution products, and to support field management in National and Premier Accounts when asked. It targets new accounts yielding \$100,000 or more in annual revenue. All new revenue that TM&SD generates is credited to the revenue goals of the District where the mail is deposited.

TM&SD is a Headquarters function, with principal offices located in Arlington, VA. Sales Specialists are located in 92 cities. Total staff numbers 241.

TM&SD's 1998 goal was to generate \$419 million in new annualized sales. In fact, this group sold more than \$450 million in annualized business.

TM&SD is organized into multi-functional teams of Sales Specialists organized around Package Services, Advertising Mail, the financial services industry, the mail consolidator industry (focusing on customers who require third-party involvement), the mail order industry, and new services (focusing on technology-based customer needs and postal products).

As sales leads are pursued and developed, high priority is placed on ensuring that the major field organizations that will service the new account are involved in the planning that makes a sale possible. This ensures that when a new account indicates a willingness to continue a relationship with the Postal Service, Customer Relations, which will manage the account, and Operations, which will process the mail, have been involved in creating the business. This builds understanding of the customer's needs and expectations, and a commitment to the long-term success of the sale.

Organizational matters occupied much of TM&SD's first year. These included creating a resource center to support day-to-day functions of the sales force, refinement of the Sales Process using process management, and establishing information systems for tracking sales and revenues.

Another initiative was the successful piloting of a Sales Force Augmentation program. This "feet on the street" sales strategy uses contract sales representatives to sell expedited mail products to small and medium-sized businesses employing between 5 and 50 people. This market segment is made up of more than three million potential customers.

TM&SD also participated in major national trade shows. Creating a Postal Service presence in these focused events helped established the Postal Service as a serious shipping contender in such major industries as mail order, package fulfillment, pharmaceuticals, and direct mail advertising. Participation in 12 trade shows in 1998 produced numerous sales leads. At the close of 1998 these leads had resulted in sales of more than \$40 million in new annualized revenue.

## B. Mail Volume and Service Performance

### 1 MAIL VOLUME

In 1998, total mail volume increased by 7.1 billion pieces, or 3.7 percent, to 197.9 billion pieces. Standard Mail (A) was responsible for most of this increase; it grew by 5.6 billion pieces, or 7.3 percent.

In 1998, Priority Mail accounted for almost 7 percent of Postal Service revenue from mail services. Priority Mail volume increased 9.0 percent to 1.2 billion pieces. Domestic Express Mail volume increased 4.1 percent to 66.2 million pieces in 1998; revenue increased 3.6 percent to \$855 million.

Periodicals Mail decreased by 0.9 percent, to a volume of 10.3 billion pieces; Periodicals Mail revenue increased 0.2 percent to \$2.1 billion.

Total Standard Mail (A) grew by 7.3 percent. Standard A Enhanced Carrier Mail increased by 8.3 percent, and Nonprofit Standard Mail increased by 2.4 percent.

Standard Mail (B) showed a 1.7 percent decrease in volume. Mail volume for Standard B Parcel Post increased 12.5 percent. Revenue for Standard Mail (B) was approximately \$1.6 billion.

Total First-Class Mail is projected to grow to almost 102 billion pieces in 1999. Growth in the expedited categories is expected to remain strong, with Priority Mail growing to almost 1.2 billion pieces and Express Mail to almost 68 million pieces. Periodical Mail growth will remain small, with the 1999 projected total remaining at 10.3 billion pieces.

Standard Mail is also expected to grow in 1999. Standard Mail (A) is expected to grow to almost 88 billion pieces. Standard Mail (B) is expected to exceed 1 billion pieces in 1999. (See Table 2.1)

### 2 SERVICE PERFORMANCE MEASUREMENT

First-Class Mail service performance results are measured through the Transit Time Measurement System (TTMS), which measures service performance from the time mail is entered into the system at a collection box or office building mail chute until the time it is received in the home or



TABLE 2-1  
HISTORICAL AND PROJECTED MAIL VOLUME BY FISCAL YEAR  
(millions of pieces)

	1997	1998	Projected 1999 <sup>1</sup>	Projected 2000 <sup>1</sup>
First-Class Mail	99,659.9	101,172.8	101,937.5	104,210.9
Nonautomation Presort	6,208.9	5,274.2	4,622.7	3,996.1
Automation Presort	36,207.0	39,172.8	40,961.5	43,758.2
Priority Mail	1,068.2	1,163.8	1,216.3	1,285.5
Express Mail	63.6	66.2	67.1	66.3
Mailgrams	5.3	4.3	4.4	3.9
Periodical Mail, total	10,411.4	10,316.6	10,333.8	10,377.3
Nonprofit Periodical Mail	2,147.2	2,136.9	2,110.8	2,065.9
Standard Mail (A), total	77,253.6	82,874.7	87,887.9	92,947.6
Standard A Enhanced Carrier Route	31,504.8	34,110.5	32,628.9	32,833.9
Standard Nonprofit Mail	13,049.9	13,358.0	14,113.5	14,149.6
Standard Mail (B), total	988.4	971.4	1,042.8	1,100.5
Standard B Parcel Post	236.9	266.5	332.7	345.8
Standard B Bound Printed Matter	521.7	488.1	492.0	523.9
Standard B Special Rate	202.7	189.3	191.3	202.6
Standard B Library Rate	27.0	27.5	26.8	28.3
Postal Service Mail	377.3	376.7	387.1	363.7
Free Mail for the Blind	53.3	52.7	71.2	93.4

<sup>1</sup> Starting Quarter 1 FY 1999, permit imprint Standard Mail (B) Parcel Post RPW data were estimated using PERMIT System data. This methodology was used in preparation of the 1999 and 2000 projections.

small business. TTMS is independently run by the accounting firm of PricewaterhouseCoopers, through a contract with the Vice President and Consumer Advocate. The system provides quarterly estimates of First-Class Mail destination service performance for 96 cities from their overnight, two-day, and three-day service commitment areas. The independent TTMS showed an average national overnight performance of 93 percent for 1998. National service performance for two-day service commitment areas averaged 83 percent, while three-day performance averaged 81 percent. Table 2.2 shows the performance for each quarter of 1998.

TABLE 2-2  
NATIONAL FIRST-CLASS SERVICE  
PERFORMANCE IN 1998  
(as measured by EXFC)  
(in percent)

	Performance by Quarter				FY
	1st	2nd	3rd	4th	
Overnight	93	93	94	93	93
2-day	79	79	86	88	83
3-day	80	74	84	86	81

While the initial TTMS focused on First-Class service (EXFC), service performance measures focusing on key competitive markets continue to be developed.

Measuring customer satisfaction is an ever-evolving process. In the past year, we have made significant enhancements to the process, making it more reliable and providing actionable information for Postal Service managers. Customer Satisfaction Measurement (CSM) is composed of three distinct processes: one that measures residential satisfaction (CSM-R), one that measures business customer satisfaction (CSM-B), and one that measures event-based customer satisfaction (CSM-EVB).

The CSM-R results showed that 93 percent of the nation's households rated their overall satisfaction with the Postal Service as "excellent," "very good," or "good" at the end of the fiscal year.

For the CSM-B, National accounts reported an overall satisfaction rating of 94 percent, an increase of 5 percent over the same period last year. These business customers have been identified as our largest customers. Collectively, they contributed an estimated \$11.9 billion toward the total annual Postal Service revenue. Approximately 238 accounts are designated as National accounts.

The overall satisfaction rating of Premier accounts increased 2 percent from last year, to 91 percent. These are the second largest business customers. Collectively, Premier accounts contribute an estimated \$17.6 billion toward the total annual Postal Service revenue. There are about 15,000 Premier accounts.

Business accounts reported an overall satisfaction rating of 90 percent, also a 2 percent improvement from a year ago. Business accounts are all other business customers not identified as National or Premier accounts. Collectively, this category contributes an estimated \$14.2 billion toward the total annual Postal Service revenue. Table 2-3 shows the CSM results for 1998.

TABLE 2-3  
CUSTOMER SATISFACTION: BUSINESS  
AND RESIDENTIAL PERFORMANCE  
IN 1998  
(in percent)

	Performance by Quarter/Year			
	1/98	2/98	3/98	4/98
National	89	92	92	94
Premier	89	89	90	91
Large/Small Business	88	91	90	90
Residential	91	93	93	93

### 3 PROGRAMS AND TRENDS

Increasing emphasis is being placed on customer focus, service improvement, product cost containment, and profitability. Merchandise services redesign gained momentum this year and involved all aspects of Postal Service parcel services. This included emphasis on service improvement, the feasibility of parcel delivery confirmation, electronic shipper-paid forwarding through Address Change Service, and increased emphasis on such delivery service options as the carrier release program. Due to the Drop Shipment Appointment System (DSAS), communications between the Postal Service and all drop ship users have continued to improve. DSAS provides more effective transmission of arrival and unload profiles and information to and from Bulk Mail Centers. This includes the close-out feature, which provides necessary mailing information to customers 24 hours after they have deposited mail at a BMC or Processing and Distribution Center (P&DC.)

With the activation of the tenth PMPC in mid-1998, Phase 1 of the Priority Mail Network became fully operational. The volume of Priority Mail processed through the PMPCs since the first PMPC began operations in Miami on August 30, 1997, exceeds 223.5 million pieces and is surpassing Postal Service estimates. This trend is expected to continue in 1999. Service performance, as measured by Priority End to End (PETE), consistently shows a higher percent of intra-Priority Network volume is delivered to our customers within two days when compared with the national rate, excluding all Priority Mail Network volume.

### 4 INTERNATIONAL MAIL

The International Business Unit (IBU) was started in 1995 with the vision of becoming during the next few years—and no later than the year 2005—the leading global supplier of direct marketing and package delivery services and related business transactions to business customers worldwide. All standard services for households and small businesses were continued as well.

Global Package Link (GPL) is the Postal Service's bulk shipping service for mail order goods going to individual consumers overseas. During 1998, service began to customers in Germany, France, Hong Kong, and Singapore. In 1998, a new ad campaign was launched for Global Priority Mail (GPM) service that positioned

Global Priority Mail as the international equivalent to domestic Priority Mail. The consumer awareness generated by the "What's Your GLOBAL Priority?" campaign increased GPM revenue 70% over 1997.

Six International Service Centers (ISCs) are now being developed to improve overall service and help control future costs. Two of the ISCs—JFK and Dallas—are already on line and the other four will come on line by the Year 2000. The IBU is also seeking registration and certification under the international quality standard, ISO 9000.

#### **a. Volume and Revenue**

In 1998, total international mail accounted for 954 million pieces and generated \$1.7 billion in revenue. Revenue decreased from the previous year by 1 percent, while volume decreased by 5.5 percent. International revenue is primarily derived from airmail, surface mail, Express Mail International Service (EMS), International Surface Airlift (ISAL), and foreign postal transactions such as terminal dues and other related fees. However, other new initiatives generated an additional \$60 million for international.

Two IBU initiatives have generated good revenue levels. GPL has generated \$24 million (with a volume of 1.6 million pieces), and GPM has generated \$30 million (with a volume of 4.2 million pieces). Airmail constituted 65 percent of the total international mail volume and represented 48 percent of international revenues. Airmail volume (621 million pieces) was 6.6 percent less than in 1997, and airmail revenue (\$803 million) was 5 percent less than in 1997. International total surface mail volume as a percentage of total international volume fell marginally between 1998 and 1997 at 1.9 percent, and it generated \$184 million in revenue in 1998, down 4 percent from 1997.

International Priority Airmail (IPA) and ISAL grew at healthy rates in 1998. IPA revenue was \$42 million, up 6 percent over 1997; ISAL revenue was \$122 million, down 6 percent.

The revenue and volume above is tied to the profit and loss report, and includes portions of GPL, Direct Entry, ICM, and Special Services revenue and volume not included in the international revenue reported in the Revenue, Pieces Weight Report (RPW).

Overall, contribution was positive and exceeded SPLY by 5 percent. The positive contribution was due primarily to lower expense levels. Moreover, 1998 revenue fell in large part to three primary factors: 1) the adverse financial implications associated with the economic conditions in the Pacific Rim, 2) the entrance of foreign postal administrations into the North American market, and 3) the widespread use of the Internet and other forms of electronic diversion.

#### **b. Information Technology**

Most of the major postal administrations are involved in the application of EDI to facilitate the movement of international mail and collect the required data on mail flows. The Postal Service now has a production system exchanging tracking data on EMS with 45 other administrations and is processing EDI exchanges covering other mail types in a program involving key European administrations and Canada, which represent about half of all international mail volume. A new product for the Posts is PostECS (Postal Electronic Courier Service). This is a secure, Internet-based document delivery service currently in pilot test by the United States, Canada, and France. This service provides users with all the advantages of couriers, fax, and the Internet along with the protection of the Postal Service. PostECS enables users to send files via the Internet—either domestically or internationally—at a substantial cost savings over competitive overnight services, couriers, and fax. PostECS is further enhanced with the Electronic Postmark™ system that combines tamper detection with an official Postal Service time-and-date stamp. The pilot test runs through December 1998, at which time an appropriate decision based on customer feedback will be made concerning next steps.

#### **c. Terminal Dues**

Terminal dues are the payments made between national postal administrations to cover the costs of handling and delivering international letter mail, printed matter, and small packets. Rates are established by the Universal Postal Union (UPU) and through bilateral and multilateral agreements. The 21st Universal Postal Congress held in Seoul, Korea, in 1994 instructed the UPU's Council of Administration and Postal Operations Council to continue the study on terminal dues in order to ensure that administrations of destination

receive equitable remuneration for handling foreign-origin mail, to recommend adjustments to the terminal dues system, and to formulate proposals. A UPU terminal dues Working Party conducted an extensive two-year study on the regulatory, economic, and financial aspects to be considered in the new UPU terminal dues system. Preliminary proposals were submitted in April 1998, and were further refined in a series of regional roundtables throughout the summer. Most of the proposals focus on cost- and tariff-based terminal dues for industrialized countries and a type of world average system for developing countries. The Postal Service, in cooperation with the Department of State, is conducting briefings for U.S. mailers, for private operators, and for other U.S. government agencies in order to develop a coordinated U.S. approach to this issue. The aim of the Postal Service is to seek support for a terminal dues structure that will move toward appropriate cost coverage for industrialized countries, promote postal infrastructure in developing countries, and maintain affordable and commercially viable international rates for U.S. mailers.

#### **d. International Postal Agreements and Conferences**

In March 1998, the Postal Union of the Americas, Spain, and Portugal (PUASP) held its annual Consultative and Executive Council meeting and an Extraordinary Congress Session. The Congress ratified organizational modifications to the Union's Constitution as part of the continuing efforts to modernize and transform this restricted union made up of 27 postal administrations representing North and South America, the Caribbean, and the Iberian Peninsula. Delegates from the U.S. Postal Service made presentations on the Miami International Service Center, new products, use of the UPU-sponsored International Money Order Program, and the lead role of the Postal Service in the UPU Postal Development Action Group. As Chair of the PUASP Postal Security Action Group, the Inspection Service also provided an update on regional security issues.

In early September 1998, the Communications Institute of Portugal hosted a meeting of the PUASP member countries on postal regulations. Officials from both regulator and operator agencies of Spain, Portugal, Argentina, and Brazil provided extensive information on their experiences in separating these two functions and their views on future regulatory development. A PUASP terminal dues roundtable to discuss proposals for the Beijing Congress was also held in cooperation with the UPU.

The Postal Operations Council (POC) of the UPU held its annual meeting in Bern, Switzerland, in April 1998. The Postal Service continued to play a leading role, chairing important working groups dealing with international direct mail and marketing, EMS, EDI, and terminal dues. The POC adopted several decisions in these technical fields, decisions aimed at making postal administrations more competitive in rapidly evolving international mail markets.

At the 1996 POC meeting, the Postal Service took the lead in establishing a Direct Mail Marketing Program at the UPU to establish and expand direct mail on a worldwide basis, thereby seeking to provide an infrastructure for our customers wishing to participate in international markets. The Direct Mail Advisory Board, with some 40 postal administration and industry members, commissioned ADLittle to perform a four-part study on the direct mail industry. The study was used to develop a business plan, which is now being implemented. One of the more important aspects of the business plan is the creation of *The World Guide to Direct Mail*, expected to be published in 1999. The Board members are also concentrating on the preparation of a World Conference on Direct Mail, to be held during the UPU Congress in Beijing in August 1999.

The POC approved the creation of an EMS Cooperative among its members.

A project team composed of Great Britain, Japan, and the U.S. (Chair) was formed to study a complex set of issues involving structure, funding, staffing, and goals of the new organization.

In October 1998, the UPU's Council of Administration, which focuses on the legal and regulatory environment in which postal administrations operate, advanced its work on developing proposals to be considered by the 1999 Universal Postal Congress in Beijing. In the past few months, the IBU has begun holding a series of briefings for other government officials, customers, and competitors to familiarize them with the most important issues of the Congress, such as terminal dues, regulatory issues, consultative status for nongovernmental organizations (NGOs), restructuring the UPU, the development of criteria for universal service obligations, and the approval of the draft UPU Strategic Plan 2000–2004.



**e. New Services**

Global Direct is a new service for large-volume commercial publication mailers. It offers a utility to enter large volumes into the United States and foreign destinations with domestic postage indicia at reduced rates but with improved service. This service has been established to selected foreign countries. Other new services are under development for release during the 1998–1999 time frame.

**C.  
Mail Distribution**

**1 AUTOMATION OF SORTING  
ACTIVITIES**

The postal automation program focuses on three strategies: generating barcoded mail, processing barcoded mail in automated operations, and adjusting the workforce resulting in a reduction or avoidance of work hours.

Barcodes are generated by customers or by the Postal Service. We encourage customers to provide us barcoded mail through rate incentives and other activities. We apply barcodes to most other mail using a variety of methods, depending on the type of mail piece.

To ensure the quality of mailer barcoded mail, the Postal Service deployed 261 Automation Barcode Evaluator (ABE) systems. These machines check the print quality and geometry of codes prepared by mailers. Initial field testing revealed that software and mechanical modifications were required to ensure that the ABE systems provided consistent results. Those changes were deployed along with calibration test decks. Effective May 4, 1998, ABE results began to be used as part of the official mail acceptance process.

We continued our accelerated deployment of automation and mechanization equipment and software. As a result, we continued to enhance our ability to place accurate barcodes on letter mail, while deploying additional equipment to sort the increasing percentages of automated letter, flat, and package mail.

In 1998, plants processed 90% of their incoming secondary letter mail in automated operations, a 3% increase from FY97. Plants also used barcode readers on flat sorting machines to process 32% of incoming secondary flats, a 5% increase over 1997. Nearly all Standard (B) mail (parcels) processed in

Bulk Mail Center (BMC) secondary operations utilize barcodes. These packages are sorted to the five-digit level and transferred to delivery units for final sorting in manual operations.

We deployed approximately 6,500 pieces of equipment in 1998. We project that the first full year utilization of this equipment will provide better service to our customers and save the Postal Service in excess of 8.9 million work hours.

During 1998 new contracts were let for:

Replacement Delivery Barcode Sorters (DBCS)	614
DBCS OSS Modification Kits	546
DBCS Stacker Modules to Increase Depth of Sort	1,369
Advanced Flat Sorting Machines	175
Integrated Advanced Facer Cancelers with ISS Capability	173
Identification Code Sort Tag Readers	9,046
Flat Sorting Machine 1000 Wide Area Barcode Readers	346
Handwriting Recognition Modules	254
Small Parcel and Bundle Sorters	100
Remote Barcoding System Work Stations	1,785
Total	14,408

Most of this equipment will be installed in FY 99 and FY 2000.

**a. Letter Mail Automation**

In 1998, customers generated over 70 billion barcoded letters, representing about 52% of total letters. The Postal Service generated barcodes for over 45 billion letters, or about 34% of all letters.

Of the barcodes we generated and applied to letters, Multiline optical character readers (MLOCs) in plants accounted for about 19 billion, the Remote Barcoding System (RBCS) accounted for about 25 billion, and other operations accounted for the remainder.

**1. Barcode Application at Plants.** In 1998, the Postal Service continued its campaign to improve the automated processing of letter mail as we deployed additional hardware and software.

All MLOCs were upgraded with a recognition coprocessor by early 1998. This system added a second recognition function to the machines to improve its performance on machine printed mail.

In addition, we began testing of a new release of Co-Directory software, which was originally deployed in 1997. The new release will transfer MLOCR lookup algorithms from the Intel boards to the co-directory computer.

These changes and software improvements throughout the course of the year enabled us to encode 6–8% more mail than the base MLOCR, with some early tests indicating encode rate increases over 10%.

RBCS provides the Postal Service with a means to apply nine-digit and delivery point sequence barcodes to letter mail that cannot be read by MLOCRs. Images of envelopes that cannot be resolved by MLOCRs in plants are captured and processed through RBCS. One way of increasing the number of barcodes we generate is by processing more of this type of mail through RBCS. In 1998, two initiatives allowed us to increase in this area.

First, we deployed an additional 385 Advanced Facer Canceled/Input Subsystem (AFCS/ISS), which improves our ability to capture images for the RBCS system.

Second, we began deployment of our Remote Input/Output Subsystem (RIOSS), which allows smaller plants to take advantage of the RBCS system by connecting to a host plant, already operating on RBCS. This avoids the need for additional IPSS equipment. At the close of the FY, 23 small plants were in this program.

RBCS processing is divided into two general categories: RCR processing, involving automatic reading and interpretation of the address information, and REC keying, requiring human interpretation. To the extent that we are able to enhance our RCR capability, we are able to reduce processing time and reduce expenses.

In 1998, we improved our RCR capabilities through a number of programs. We enhanced our ability to read both machine printed and handwritten letter mail.

Recognition Improvement Program (RIP) is a software enhancement for machine printed letter mail. Current suppliers were invited to submit recognition improvements for testing. The development of these improvements was accomplished at the suppliers' expense and the Postal Service was able to select those improvements with the highest return on investment, thereby providing the greatest reduction in keying work hours. Evaluation was based on "system encode rate improvement" considering both the on-line OCR and the off-line

RCR and their respective potential cost savings. This program resulted in a 2% improvement in the system machine print encode rate.

We completed the deployment of the HWAI software. This allows us to apply barcodes to 23–30% of handwritten letter mail without any human intervention.

Handwritten Improvement Program, is an incentive-based program which calls for our supplier to achieve a 55% handwritten address encode rate with incentives based on incremental improvements in performance. The system baseline for this program is a 25% handwritten encode rate. By the end of the fiscal year, the handwritten encode rate had risen to 37%, a 48% improvement. In early FY 99, we expect to attain the 55% encode rate

**2. Remote Encoding Centers (REC).** When all electronic means of resolving address information have been exhausted, the mail piece image is sent to REC sites where operators use video display terminals and keyboards to process the address information. Providing partial RCR results with the image can often allow the operator to process the address with minimal keystrokes. The results of RBCS activities are barcodes that are sent electronically to a barcode sorter. There, the barcode is applied to the mail piece, keeping it in the automated mail stream.

With the addition of the Anchorage, AK, plant to RBCS in 1998, the network is fully operational in 250 postal facilities.

As the fiscal year ended, a unique approach to RBCS enabled Puerto Rico to facilitate cost savings and delivery improvement without REC capability. Often, the OCR/RCR data is sufficient to provide an accurate barcode which does not represent the finest depth of code. In a traditional RBCS operation, this information would be added by the REC operators. In Puerto Rico, all RCR-encoded mail is considered finalized without being improved by an operator, providing partial automation benefits for those mail pieces.

**3. Letter Sorting Machine Removal.** To support the automation plan of generating and processing letter mail using barcodes, the Postal Service continued the initiative which began in 1994 to remove virtually all Multi-Position Letter Sorting Machines (MPLSMs) by 1998. In 1994, there were 848 MPLSMs in service. There are now

fewer than 45 machines remaining. Offices without MPLSMs have achieved over 89% of their letter mail processed on automation, realized increased letter mail productivity, and increased Delivery Point Sequence (DPS) volumes.

#### **b. Flat Mail Automation**

About 40 billion pieces annually fall into the flat mail category. In 1998, customers generated over 14 billion barcoded flats, representing about 36% of total flats. Postal CFS activities also generate a small percentage of barcodes as part of the forwarding process.

Until recently, about 25% of the flat mail could not be processed on existing flat-sorting equipment due to problems with stiffness, wrapping (poly), newspapers, and flimsies. These “non-machinable flats” required manual processing.

An important addition to the automation distribution capability is the Flat Sorting Machine 1000 (FSM 1000). This machine, with its channel transport, processes virtually all of the previously nonmachinable flats and provides significant savings over manual operations. During 1998, deployment of 240 machines brought the total deployed to 340.

In July 1998 we began retrofitting FSM 1000 flat sorters with barcode readers to further enhance their automation capabilities.

Because emerging technologies allow other options, the Postal Service has not focused on generating barcodes for flats at plants. We tested competing flats OCR technologies and selected a contractor to retrofit their OCRs on our FSM 881s. The Postal Service awarded a contract to build and deploy OCR systems on all 813 of our FSM 881 machines. Deployment began in July 1998 and is expected to be completed in April 1999.

In June 1998, the Board of Governors approved \$434 million in capital for the purchase of 175 Next Generation Flat Sorting Machines. In August 1998, the Postal Service awarded a contract to build and deploy these machines, which are now called the Advanced Flat Sorting Machine (AFSM) 100. Deployment is expected to run from November 1999 through November 2000. The AFSM 100 will enable us to sort flat mail in the most highly efficient, cost-effective way possible by taking advantage of the latest technologies available.

The AFSM 100's enhanced features will allow us to expand automation strategies to the flat mail stream. These features include three (3) automatic feed stations yielding throughput in excess of 17,000 pieces per hour, OCR reading with online video encoding (i.e., real-time keying) of OCR

rejects, and a tray take-away system with adaptability to robotics handling. This initial buy is for handling additional volume. Future plans call for replacing our FSM 881s with AFSM 100s.

#### **c. Parcel Automation**

Package automation efforts focused primarily on Standard (B) mail, which is sorted at BMCs and sent to five-digit ZIP Code destinations. If a package arrives at a BMC without a barcode, a barcode applicator on the primary sorter applies one. The technology currently utilizes five-digit barcodes. In 1998, customers barcoded about 50% of these pieces and the Postal Service barcoded nearly all the rest.

A significant number of mechanization projects were completed in 1998 throughout the BMC network to upgrade the infrastructure and improve the capability to process parcels. In 1998, the Postal Service evaluated the feasibility of using a parcel singulator to substantially reduce the labor required to process parcels. Two prototype units are currently being installed for a competitive test. If successful, the production deployment of singulators should commence in early FY 2000.

In addition to these activities, the Postal Service looked to the material handling industry for state-of-the-art technology for application in the Postal Service. Four vendors were selected to work on concept designs for a next generation BMC. The vendors prepared detailed facility layouts and provided simulation models of their proposed processing facility. In FY 99, key elements within these concepts will be tested in the BMC network.

A separate initiative to identify new parcel sorting technology began in 1998. There is an opportunity to replace the 25 year old sorting technology in the existing BMCs with reliable new sorting equipment that would handle more mail while reducing operating costs and aid in noise reduction to meet OSHA standards. We plan to install and test several new systems in FY 99.

#### **d. Automation of forwarding processes**

In August 1998, a contract was awarded to replace the obsolete Computerized Forwarding Sites' S/88 computers with a computer system and software that will serve as the platform to automate the forwarding operation. Deployment of these systems will be completed in FY 1999.

Engineering also began a program, Postal Automated Redirection System, to automate our forwarding operation. The initial system design contract will be awarded in early FY 99.

**e. Drop Shipment Appointment System Enhancements**

The Drop Shipment Appointment System (DSAS) allows mailers and their agents to make appointments electronically and to obtain arrival and unloading information electronically. A number of enhancements are being implemented to provide customers additional information and support for their mailing needs. Combined with the implementation of the Vehicle Tracking, Analysis, and Performance System, scheduled for deployment in FY 99 at all BMCs, will provide the mailers/agents real-time information and status of their mailings. Features that have been implemented are the Electronic Batch Appointment process and the Facility Announcement Screen. The Electronic Batch Appointment feature will enable customers to make large numbers of appointments at one time. The Facility Announcement Screen will provide customers a status of the facility on the day of their requested appointment. The most significant enhancement will be the conversion of DSAS from a main frame based system to a more responsive, user friendly Web-based application.

**2 MATERIAL HANDLING**

Major progress has been made within the past decade toward automating and mechanizing the processing of our various product lines. However, the actual physical movement of mail within a facility has been a very manual operation, requiring personnel to feed, sweep, load, and move the mail from one operation to the next. The area of material handling continues to be a major investment target area for applying new technologies to contain work-hour growth.

This year the Postal Service Board of Governors approved the resumption of production deployment of the Tray Management System (TMS), as well as additional funding for robots used in material handling operations. These programs will make significant contributions toward work-hour containment as they provide a more controlled processing environment. Additionally, the management information capabilities of TMS make it a critical element in our strategic plan to provide our management and customers valuable work-in-process information.

**a. Tray Management System**

The TMS is a state-of-the-art intelligent material handling system used to support flat and letter mail operations in our Processing and Distribution Centers (P&DCs). As one of our most important strategic programs, TMS is designed to be standardized, flexible, and modular. It will improve plant efficiency by providing an even flow of trayed mail from operation to operation. With its modular, open control system architecture, TMS will provide real-time decision support. Optimized operating schedules, reduced cycle times, and improved employee productivity are expected from the deployment of this equipment, which provides mail at the right place at the right time. The information capabilities of TMS make it an integral part of the Postal Service's goal to create an information platform for customers and management.

This year, the Postal Service continued activities related to the development and implementation of TMS at the three prototype facilities—Ft. Lauderdale, FL; Charlotte, NC; and Middlesex-Essex, MA. The work focused on analyzing the operational requirements for additional staging capacity, software development, and enhancements and optimization of the TMS hardware. Engineering and Operations have also been working with the contractors to validate design models and ensure we implement standard TMS process/equipment solutions. These solutions will provide sufficient staging capacity, ancillary support equipment, and information systems that meet all stated corporate operational strategies.

In March 1998, the Board of Governors authorized capacity increases for the five production TMS sites originally implemented in November 1997. In April 1998, upon Board approval, deployments resumed at 13 additional production sites where the Postal Service had contractual commitments. Work at these sites had been suspended in May 1997 while we addressed many of the technical issues and functional problems that had occurred in our initial rapid deployment. Subsequently, in June 1998, the Board authorized deployment to two additional sites where the Postal Service had contractual commitments. This process began production deployment activity for a total of 20 sites and initiated a systematic design process between Operations, Engineering, Field personnel, and TMS contractors, working as a team to design and deploy TMS.



## **b. Robotics**

In August 1996, the Board of Governors approved deployment of 100 robotic tray handling systems for installation into P&DCs, BMCs, and Air Mail Centers (AMCs). These pedestal-style robots automate the sorting and loading of sleeved and strapped letter mail trays. By February 1998, 17 robotic tray handling systems had been deployed. In September 1998, the Board approved additional funding to complete the installation of the remaining 83 robotic tray handling systems. Deployment is expected to be completed in July 1999.

A second deployment phase for robotics equipment, which includes robots in a rectangular array, is scheduled for Board review in 1999. It is intended to expand the capabilities of robotics handling devices. A system capable of unloading whole layers of palletized trays is being field-tested in a BMC. Further development through 1999 will focus on cells to handle both sleeved and unsleeved letter trays and tubs and perform opening unit operations, including the automation of removing straps and sleeves and presenting letter trays for processing. In addition, a parallel project to develop robotics handling of covered and strapped flats tubs is planned for this year. By the end of 1999, it is anticipated that the automatic handling of open letter trays and flats tubs will be possible. When all aspects of this program are completed, many labor-intensive manual operations will be eliminated.

## **c. Mail Cartridge System (MCS) and Integrated Buffer System (IBS)**

In 1998, the Postal Service continued the development of the MCS and the IBS. The MCS is a crucial development area for automating the feeding and sweeping of DBCSs. It provides an automated feed system that will recirculate local mail for two-pass sorting and, by replacing the DBCS sort pockets with a lightweight barcoded cartridge, allow robotics sweep-side equipment to remove full cartridges and sort them onto racks according to their destination. MCS is designed to eliminate workhours associated with feeding and sweeping the DBCS and to reduce sweep-side errors. A field test of the MCS is planned for mid FY 99.

In the summer of 1997, the first prototype IBS was installed in the Integrated Processing Facility (IPF) located at Ft. Myers, FL. This machine represents one of the first steps toward achieving a continuous, automated environment, eliminating the need for many manual operations,

including sweeping, traying, moving, staging, and feeding mail to current automation equipment. Development of the IBS continued during 1998.

The eventual deployment of material handling equipment currently scheduled or in production, as well as that still in development, will provide us with ergonomically efficient, modernized "robotics" processing centers before the year 2000.

## **3 INTEGRATED PROCESSING FACILITY (IPF)**

The Operations Strategic Action Plan was implemented in May 1996. One objective of this plan was to substantially alter the future operating cost structure of our plants. To achieve this objective, the Postal Service devised a long-term strategy for reducing the labor intensity of processing operations by creating a network of highly automated processing plants called IPFs. We began the establishment of a demonstration IPF in Ft. Myers, FL, in early 1997.

This facility, when fully operational, will be a fully automated processing facility, integrating such technologies as Robotics, image lift at the Advanced Facer Canceler System (AFCS), the TMS, the IBS, the MCS, and numerous other initiatives related to the processing of letters, flats, and packages. Once these and future technologies are fully integrated, the IPF will be the processing plant of the future with a significant reduction in the need for manual labor to load, transport, unload, feed, and sweep machines. In early 1998, the first IBS was installed in the IPF, and we began installation of a second IBS in November 1998. We have completed the expansion of the IPF building, which nearly doubled the mail processing work floor. In addition, we have begun testing a Simplified Mail Flow (SMF) concept based on a first-in, first-out continuous mail flow. The completion of a fully automated plant, the IPF, is five to eight years in the future.

## **4 PRIORITY MAIL NETWORK**

Phase 1 of the Postal Service business strategy includes establishing a separate network for Priority Mail. This effort began in 1997 with the signing of a contract between the Postal Service and Emery Worldwide Airlines; and it came to fruition in mid-1998 with the activation of the final Phase 1 Priority Mail Processing Center. In the arrangement between the Postal Service and a private sector contractor, Emery Worldwide

Airlines provides a time-definite two-day Priority Mail network with dedicated facilities, personnel, and transportation. Within the network, Priority Mail moves on customized dedicated/designated air and surface transportation with a virtually seamless transition from the Postal Service to the contractor and back to the Postal Service. Service performance, as measured by PETE, supports the positive performance of the Priority Mail Network.

## 5 ADDRESS MANAGEMENT

The success of our automation program is dependent on our ability to ensure that each mailpiece has a correct barcode. Our address management services provide that capability by maintaining current data on each delivery point served by the Postal Service and by regularly providing that data to postal facilities and customers.

### a. Forwarding

The Postal Service uses the Computerized Forwarding System (CFS) to forward mail to the 17% of the nation's population that moves each year. Approximately 2.8 billion pieces of forwarded mail and 43 million change-of-address cards were processed in 1998. CFS sites are located in 220 postal facilities nationwide. Each CFS site presently consists of a centralized computer, mechanized terminals for processing letters, and nonmechanized terminals for processing flats and magazines. The CFS database provides the data for all address correction activities.

### b. 100 Percent Database Quality

Address Management has continued to make progress toward the goal of 100% Address Management Systems (AMS) database quality by pursuing an aggressive policy of ongoing quality reviews and the development and implementation of technological and procedural improvements to ensure better communication between Delivery and field AMS sites. This has resulted in continued improvements to AMS database quality.

During 1998, Address Management completed 75 percent of the work necessary to implement the redesign of the Address Management System Automated Data Collection System (ADCS). This redesign of our existing mission-critical addressing data infrastructure is vital to the long-term strategic goals of the Postal Service. The new system is scheduled to be completed and deployed in late

FY 99. The successful deployment of this system will provide a much more robust, user-friendly system and it will enable the AMS to interface directly with other postal data systems.

ADCS will provide more timely delivery point addressing information for use in all automated mail processing, barcoding, and sorting operations. It is also the source of all address information products used by the commercial industry to prepare automation compatible mailings. This critical data is disseminated through the processes described below.

### c. Address Quality Improvement

Improving address quality reduces the amount of undeliverable-as-addressed mail and improves the effectiveness of automated mail-processing operations. Products and services are made available to assist mailers in attaining and maintaining 100% deliverable address lists. Mailers who use these services produce more deliverable mailpieces and also gain access to work-sharing discounts. Mailers use products to access five- and nine-digit ZIP Codes, carrier route identifications, city-state designations, and street-level address information to verify the addresses to which they are mailing. A new Line of Travel (LOT) product was made available to give mailers the ability to sort their mailings in carrier casing sequence order. Mailers can attain 100% deliverability through use of the following systems and products.

#### 1. Address Element Correction (AEC) Service.

The AEC service was designed to correct addresses that could not be matched to the national ZIP+4 file using Coding Accuracy Support System (CASS)-certified address-matching software. AEC corrects deficient addresses and identifies those that do not exist. Already, millions of addresses in mailers' files have been examined and corrected, leading to improved customer satisfaction. AEC uses a variety of computer logic resolution processes to correct as many addresses as possible, and it produces a diagnostic report about the mailer's list-management practices. Current electronic success rates average 40 to 50% of the previously unmatched addresses. More than 9 million addresses were successfully corrected in 1998.

**2. Barcode Certification.** To ensure the accuracy of the barcodes applied by mailers, the Postal Service evaluates the ability of customers' hardware and software to produce properly constructed barcodes that meet Postal Service automation requirements. During the current year to date,

21 vendors participated in the certification program, and 60 printers, 5 software packages, and 5 systems were certified as producing barcodes that meet required physical characteristics.

**3. Coding Accuracy Support System.** CASS improves the accuracy of carrier route, 5-digit ZIP, ZIP+4, and delivery point codes that appear on mailpieces. The program is a quality control measure that ensures that software vendors provide accurate, updated information and software to customers who purchase this information to process their mailing lists. CASS is available to all mailers, service bureaus, and software vendors who want to evaluate their address-matching software and improve the quality of their ZIP+4, carrier route, and 5-digit coding accuracy. This process is graded by the Postal Service's National Customer Support Center (NCSC), and the results are returned to mailers to provide useful diagnostics for correcting deficiencies.

CASS enables the Postal Service to evaluate the accuracy of address-matching software programs in three areas: (a) ZIP+4 delivery point coding, (b) carrier route coding, and (c) 5-digit coding. CASS allows vendors/mailers the opportunity to test their address-matching software packages and, after achieving a minimum percentage of accuracy, be certified by the Postal Service.

**4. Correct Address Notification.** Responding to requests from the mailing industry and the need for consumers to use complete and correct addresses, the Postal Service developed a system of customer address notification. The notification effort seeks to influence the public to use all the elements of a complete and correct address. Notification mailpieces were delivered to approximately 300,000 customers during 1998.

**5. Customer Notification Letter (CNL).** The CNL is a notification to postal customers who have submitted change-of-address (COA) orders (PS Form 3575). The notifications include details of the COA order, providing customers an opportunity to verify the COA information on file with the Postal Service. Customers are instructed to contact the post office serving their old address if any of the COA information is not correct. The telephone numbers for both the old and new post offices are provided. The notifications also include a question and answer section advising customers what to do if they are not receiving mail at their new address. There is also information on how to

notify others of their new address, and a reminder to register or reregister to vote. In 1998, more than 15 million customer notifications were mailed.

**6. Delivery Sequence File (DSF).** The DSF is a comprehensive licensed address data system that expands the level of information beyond the ZIP+4 code. The system contains a complete address register with carrier delivery sequence information. Mailers who match their address records to DSF can validate the existence of the address and identify deficient elements. Consistent with other address quality systems, DSF standardizes the addresses submitted by mailers to ensure automation compatibility. Mailers in 1998 matched more than 15 billion addresses.

**7. Locatable Address Conversion System.** The Locatable Address Conversion System process enables business mailers to electronically update their rural-style addresses with new, locatable city-style addresses in areas that are experiencing 911 emergency response address conversions. Improved address quality increases mailer access to work-sharing discounts and improves deliverability. The Postal Service licensed 12 firms to assist mailers in updating their address records or to perform the matching service for business mailers.

**8. Move Validation Letter (MVL).** In April 1996, the Postal Service implemented a process to circumvent the fraudulent submission of COA orders. The solution, Move Validation Letter (MVL), is a notification that is mailed to postal customers at their old address alerting them that a request has been made to forward mail from the old address. If a potentially fraudulent situation exists, the customer is instructed to contact their local post office for assistance. The telephone number of the local post office is provided. These notifications are generated for COAs entered into the Computerized Forwarding System (CFS) database on a daily basis. They are mailed within 24 hours of receipt by the National Customer Support Center (NCSC) in Memphis, TN. In 1998, more than 35 million notifications were mailed.

**9. Multiline Accuracy Support System (MASS).** The MASS is an extension of the CASS, which is a process designed in cooperation with the mailing industry to improve the accuracy of postal codes that appear on mail. Whereas CASS focuses on the processing of addresses stored electronically

in computer data files, MASS tests the quality of address matching occurring on MLOCR equipment and direct-view encoding stations. These systems have to lift an address image directly from a mail-piece to accomplish processing.

**10. Presort Accuracy, Validation, and Evaluation (PAVE).** The PAVE program is a process designed in cooperation with the mailing industry to evaluate presort software and determine its accuracy in sorting address files according to Domestic Mail Manual (DMM) standards. PAVE is available only to software and hardware developers, that is, companies that develop presort software or manufacture presorting equipment for resale or internal use. Participation in the program is purely voluntary. Although this program evaluates and validates presort products manufactured by the developers, PAVE does not guarantee acceptance of mail prepared using PAVE-certified hardware and/or software; however, it does provide national approval of computer-generated facsimiles of Postal Service postage statements, standardized documentation, and other presort documentation.

**11. Rapid Information Bulletin Board System (RIBBS).** RIBBS was introduced as a method of providing members of the mailing industry rapid access to postal information. Users can view the information online or participate in discussions on postal-related issues. Some of the information in RIBBS includes Customer Support Rulings, *Federal Register* notices, weather and natural disaster condition reports, DMM labeling lists, reports and data for ADVANCE participants, and minutes of the Mailers' Technical Advisory Committee meetings.

#### **d. The Mover's Guide**

The Mover's Guide is an all-in-one guide to moving designed to improve customer satisfaction and reduce costs. The booklet provides Postal Service change-of-address forms, mail-forwarding information, moving-related commercial advertising, advertiser discount coupons, and tips on moving. Consumer reaction continues to be positive, and customers are provided with a greater understanding of the activities associated with forwarding mail. The Mover's Guide is a cooperative venture with a private company and is designed, printed, and produced at no cost to the Postal Service or its customers. A three-year strategic alliance has been signed with the company to continue the distribution of both the English and Spanish versions of The Mover's Guide.

#### **e. MoversNet Web Site**

In July 1996, the Postal Service introduced a service for customers who use a personal computer and are planning to move: a mover's Internet Web site ([www.usps.gov/moversnet/](http://www.usps.gov/moversnet/)). MoversNet, a more informative, feature-rich, online version of The Mover's Guide, is designed to offer time- and money-saving options to help the rapidly growing population of computer-equipped movers. Current features include the following:

- an interactive change-of-address form;
- before- and after-the-move checklists;
- packing tips;
- a link to the IRS Web site to obtain income tax forms on demand;
- answers to frequently asked mail-forwarding questions;
- a ZIP Code lookup for all addresses;
- a phone number and address directory of the post office serving each address;
- commercial advertising and money-saving coupons; and
- a Spanish translation of the entire site.

Providing at-home convenience and the correct address format with ZIP+4 code for the mover's old and new addresses, the change-of-address form can be filled in on a consumer's personal computer, then printed, signed, and mailed in. Customer feedback and media reports were highly favorable. Additional enhancements are planned for FY 99.

#### **f. The Welcome Kit**

The Welcome Kit is a new value-added program for customers who have recently moved. It is designed to reduce Postal Service costs and improve service. Beginning in FY 96, the kits were test-marketed in Boston, MA; Buffalo, NY; Indianapolis, IN; San Antonio, TX; and Sacramento, CA. During 1997, the test was expanded nationwide. The Welcome Kit contains the following:

- the customer's address change Confirmation Notification Letter;
- local phone numbers and addresses for the customer's new area;
- a Settling-In Guide™, with helpful information and advice on getting settled;
- savings on products and services customers typically need after moving; and
- information on how customers can notify the Bureau of Motor Vehicles, the IRS, and voter registration offices for their new address.



#### **g. Move Update Implementation**

The Move Update requirement of Classification Reform, which became effective July 1, 1997, was established to reduce the estimated \$1.5 billion annual expense and negative service standard impacts that undeliverable-as-addressed mail creates. The requirement is that addresses used to obtain all First-Class presorted and automation discount rates must have been updated, for move activity, within 180 days (six months) prior to the date of mailing by a Postal Service-approved method. Address Management has direct responsibility for all approved methods with the exception of the manual address correction process, which is mailpiece endorsement-based. The Address Management managed methods include the following:

**1. National Change-of-Address (NCOA).** The NCOA process provides business mailers with change-of-address information for customers on their mailing lists, prior to mailing, thus ensuring that subsequent communications are directed to the current address. This process reduces the amount of undeliverable mail and promotes the use of automation-compatible address formats by ensuring that all addresses submitted are standardized with complete and accurate information, including ZIP+4 codes. More than 4 billion address corrections were provided to business mailers through the NCOA service during 1998.

**2. Address Change Service (ACS).** The ACS offers mailers automated address-correction service following the issuance of their mailings. Address correction notifications are generated from change-of-address orders (PS Form 3575) submitted to the Postal Service by customers who move. This change-of-address data is maintained in the CFS database. In order to participate in ACS, mailers are required to modify the address label or address block of each mailpiece for which an electronic ACS notification is requested. They are also required to utilize an ACS compatible ancillary service endorsement. ACS electronic notifications are provided at a fee of \$0.20 per notification. However, participation in ACS does not eliminate the provision of manual address correction notifications (hard copies), which are provided at the manual address correction fee of \$0.50 each. By rapidly updating their address lists, mailers improve the deliverability of their mail. The number of corrections processed through ACS increased to 143 million changes. These changes were accessed by 7,300 mailers, a 22 percent increase in 1998.

**3. FASTforward<sup>SM</sup>.** In 1997, Address Management deployed to the mailing industry, under Postal Service license, cutting-edge technology that provides an effective means for mailers to update addresses on mailpieces processed on MLOCs. This technology, known as FASTforward, will direct mailpieces to the customer's new mailing address when a change-of-address order has been filed with the Postal Service. FASTforward provides a fast, accurate, safe, and secure method for users of MLOCs to apply new address information and the correct barcode for the new address as the mailpieces are being processed. Concurrent with the MLOC effort, Address Management also began deployment under license of a second version of FASTforward technology for Mailing List Correction (MLC). This version provides for an expansion of the scope of the address correction activity prior to initial mailing that the NCOA program has done previously. In 1998, more than 42 million address corrections were provided to business mailers using FASTforward for MLC.

**4. Alternate Qualification Method.** A Postal Service stand-alone testing process, based on FASTforward technology, allows mailers to demonstrate that they have in place their own process that produces a 99 percent accuracy rate of move updating activity on their mailing lists. If the Postal Service verifies this, the mailers' lists are then qualified for a period of 12 months.

## **6 SUPPORT SYSTEMS FOR MAIL PROCESSING**

### **a. Postal Distribution Requirements System (PDRS)**

Postal and mailer distribution and labeling changes require that updates be made to several systems and databases. These updates have historically been accomplished independent of one another by manual means.

The Distribution Requirements database is subdivided into two sections: Mailer Distribution Requirements System (MDRS) and Postal Distribution Requirements System (PDRS). The overall database is controlled by the Office of Distribution Networks, Logistics, at Headquarters.

The PDRS will replace the distribution labeling information currently contained in the National Air and Surface System (NASS) and in the National Distribution Labeling Lists. PDRS will provide customized labeling lists for each

mail-processing plant and facility. This system will be accessible to users through the local area network in a user-friendly Windows environment. The data contained in PDRS will be used by NASS for Automatic Dispatch Generation, by the Sort Program Subsystem of National Directory Support System (NDSS), and by Passport to standardize label information.

PDRS was scheduled for deployment in early 1998. However, upgrade of the application software and the addition of select enhancements/modifications identified during field testing delayed deployment. The current schedule targets deployment to selected "beta" field sites in early FY 1999, with national deployment following successful field testing. The system is based on a three-tier hierarchical structure. The first tier consists of national labeling and distribution requirements for each class and shape of mail, maintained at the Headquarters level. This information defines the minimum distribution requirements for every mail-processing facility. The second tier consists of intra-area exceptions and inter-area bilateral agreements requiring a greater depth of sort than national distribution requirements. The third tier defines interplant distribution agreements, which represent an even greater depth of sort than required at the area level.

#### **b. Transportation Information Management Evaluation System (TIMES)**

The Transportation Information Management Evaluation System (TIMES) is a data collection system designed to track highway contractor performance as well as mail volume and content. TIMES is currently operational in approximately 450 P&DCs, AMCs, and Airport Mail Facilities (AMF) and at hub-and-spoke program sites (HASPs). During 1998 a contract was issued to conduct a pilot to test passive data collection technology using Global Positioning Satellite (GPS), barcoding and Radio Frequency Identification (RFID) technologies to identify, track, and trace mail shipments transported by highway transportation. This pilot, to be conducted in early calendar year 1999, will assess the effectiveness of the technologies in collecting/reporting data currently manually entered into the TIMES system (arrival/departure times, truck load information, mail volumes, etc.) as well as providing additional, real-time information on trailer locations, in-transit status, and unit load container information.

#### **c. Air Reservation System**

The Air Reservation System is designed as a comprehensive real-time information-based solution designed to plan, assign, monitor, and assess the movement of mail across the Logistics network. Air Reservation will replace the current Air Contract Data Collection System (ACDCS) and Scan Where You Band (SWYB) with new hardware and software platforms to enable Logistics to automatically respond to dynamically changing conditions. As it monitors the mail buildup during route assignment, Air Reservation can use business rules to selectively shut off routings as capacities are reached. As mail moves toward its final destination, near real-time data will be used to monitor operations and trigger alerts as problems are detected. In addition, a large amount of operational information will be captured and correlated to support service assessment. Logistics staff will be able to pinpoint such persistent service problems as insufficient commercial airlift between origin/destination pairs, late processed originating mail, or poorly performing contractors.

In order to gain early benefits and better determine Air Reservation requirements, a prototype mail air operations alert system was developed in 1997. This prototype is the first step toward giving transportation managers the ability to manage the flow of mail through the commercial air carrier system in a near real-time basis. In 1998 the prototype system was enhanced to improve its usefulness and to demonstrate the unit load tracking features planned for the Air Reservation System.

During 1998, the detailed design of the Air Reservation System was completed. Completion of implementation and installation of the system is expected in FY 99.

The Air Reservation System is the first element being developed in the Mail Reservation System, an integrated air and surface transportation origin-to-destination mail tracking and planning system.

#### **d. Air Operations Data Mart**

The Air Operations Data Mart is a prototype system that constitutes the first step in the creation of a Logistics Data Warehouse. It currently combines data from three disparate systems: Air Operations, Dedicated Air Tracking System (DATS), and Eagle Communications System (ECS). The requirements for the data mart encompassed the comparison

and analysis of commercial and dedicated air operational information. The Air Operations Data Mart will provide the analysis of capacity utilization of air transportation from the perspective of capacity planned, capacity available, mail volume assigned, and (when available) actual mail volume carried by weight, mail class, time and date, origin/destination pairs, air carrier, equipment used, and volume of freight carried. It will also allow analysis of arrival, origin, and transfer of mail volume profiles by actual arrival time, mail class, operation, location, and air carrier (contractor), including a comparison of flight arrival times to critical entry times for the destination facilities/processing plants. In addition, we will be able to analyze contract compliance through comparing mail assignments with actual mail movements, along with matching time stamps of various mail processing and transportation events with actual transportation movements. It will provide mail volume assignments on specified routings that were left behind or moved via alternative routings.

The Air Operations Data Mart offers data access to a variety of end users with varying skill levels and analysis requirements. A number of end user tools that fall under the broad category of online analytical processing (OLAP) tools provide the required capabilities. These range from sophisticated online querying capabilities to simple reporting capabilities.

Logistics Systems is using an established data warehouse development methodology to create the system. The key attribute of this approach is its iterative nature, with the data mart's design and development occurring in phases. As each release is completed, the data warehouse is assessed from two perspectives: how well it meets user requirements and supports the analysis strategy, and whether there are additional opportunities for warehousing that could be incorporated into subsequent releases. The assessment triggers life cycle iteration, either to complete the next release within the context of the current strategy or to expand the strategy to address additional business opportunities. This has proven to be a very successful approach, allowing us to demonstrate capabilities early on in the process of building a comprehensive decision support environment. The initial release of the Air Operations Data Mart was installed at Headquarters in April 1998, the first data warehouse application to be deployed in the Postal Service. Logistics Systems is now expanding the scope of the project to include

surface transportation and intermodal routings. Also, the production and development environments are being transitioned to the new Corporate Data Warehouse infrastructure in Minneapolis. This will facilitate a broader view of transportation operations and provide opportunities for significant process improvement.

#### **e. Dedicated Air Tracking System (DATS 98)**

The Postal Service Dedicated Air Operations group controls the movement of mail on postal dedicated aircraft through three air networks: Air Network (ANET), Christmas Network Tracking System (CNTS), and the Western Network (WNET). DATS 98 provides the Postal Service with the information and tools to monitor air and truck operations within these dedicated air networks, to supervise aviation contractors involved in moving the mail, and to supply accurate and timely reports to postal management. DATS 98 allows users to track and manage mail from either a hub or point-to-point (PTP) network perspective.

DATS 98 provides real-time operational data that allows users and managers to manage the transportation of expedited mail and to review the current day's operations. The information and automated tools provided by DATS 98 assist users in ensuring that service standards are achieved, dedicated aircraft are fully utilized, and operational alerts are dealt with on a timely basis.

During the first half of calendar 1998 the Postal Service utilized two independent computer systems, DATS 97 and the ECS, to capture, analyze, and display data related to the operation of its dedicated air networks. DATS provided support for the WNET and CNTS, and ECS supported ANET. A new version of DATS (DATS 98) was developed and will be operational in December 1998. DATS 98 will enhance and integrate DATS 97 and ECS into a single computer system that manages expedited mail movement through the Dedicated Air Operations 24 hours a day 52 weeks a year. DATS 98 will greatly improve the business processes and performance associated with both systems, at the same time providing a wealth of timely operational information to all levels of postal users and postal management. DATS 98 represents the latest in computer technology and provides the Postal Service with a solid foundation for further improvements in the management of its dedicated air networks.

**f. Logistics Learning Center (LLC)**

The LLC, established at the Indianapolis Eagle Hub facility during 1997, has as its purpose improving the quality of the logistics function by upgrading the skills of our logistics employees at all levels of the organization. The LLC uses state-of-the-art computer hardware/software systems to interface with all Postal Service Logistics software programs and to test best industry practices and introduce computer simulation technology. Training follows a structured, multitiered learning approach to enhance Postal Service logisticians' critical thinking skills.

**g. Drop Shipment Appointment System (DSAS) Enhancements**

The DSAS allows mailers and their agents to make appointments and to obtain arrival and unloading information electronically. A number of enhancements are being implemented to provide customers additional information and support for their mailing needs. The integration of VTAPS with DSAS will provide the mailers/agents real-time information and status of their mailings. Features that have been implemented are the Electronic Batch Appointment process and the Facility Announcement Screen. The Electronic Batch Appointment feature will enable customers to make large numbers of appointments at one time. The Facility Announcement Screen will provide customers a status of the facility on the day of their requested appointment.

## D. Delivery Unit Operations

**1 DELIVERY POINT SEQUENCING (DPS)**

During 1998, the implementation of DPS continued at a rapid rate. More than 1,300 additional delivery zones began to receive mail in delivery point sequence order, bringing the year-end total of delivery routes receiving DPS processing to 164,800, an increase of over 22,100 routes during the year.

At the end of 1998, the number of city delivery points was approximately 82.2 million, rural deliveries totaled approximately 27.4 million, post office box deliveries were 18 million, and highway contract routes served 1.7 million deliveries, for a total of 129.3 million delivery points.

**2 CARRIER PIECE COUNT**

During 1998, 330 Carrier Piece Count (CPC) servers were deployed to Information System Managers throughout the country. Beginning early FY 99, and continuing for approximately five months, all servers will be activated with the appropriate software to support CPC. The CPC process is an automated volume workload transfer system that eliminates the requirement for delivery supervisors to manually count volumes. All mail volume finalized on automated processing equipment located in either the main processing facilities or remote sites, called Destination Delivery Centers or Units (DDCs or DDUs), will be electronically transmitted directly to the delivery unit. This automated process reduces the administrative workloads of delivery supervisors and dramatically increases the accuracy and reliability of volume information. Pilot, Alpha, and Beta testing have been completed, which validated the initial program assumptions. Deployment and activation of the process began in September 1998.

**3 DELIVERY OPERATIONS INFORMATION SYSTEM (DOIS)**

In 1998, the Board of Governors approved the DOIS Research and Development (R&D) initiative. DOIS will be an integrated application that will share data among programs within the system and with those requiring lateral flow of data elements, such as Delivery Redesign. Data integrity is enhanced by creating a dependency flow between route adjustment information and base office data, which will occur as a passive update each time route adjustments are implemented. Extraction of data at the source will further enhance data integrity. This will be accomplished by placing the applications in a mainframe environment and by the utilization of interface features to timekeeping systems, End of Run, Address Management System, and the Complement Management System. The implementation of the DOIS R&D effort will be completed no later than January 2000.

**4 MOBILE DATA COLLECTION DEVICE**

In 1998, over 114,000 Mobile Data Collection Devices (hand-held scanners) and associated equipment were deployed to 11,275 postal facilities in support of Delivery Confirmation. These devices are provided to delivery and clerical employees to



capture delivery date and time delivery information. The Delivery Confirmation System supports Express Mail, Priority Mail, Standard Mail (B) parcels, and accountable mail. Mobile Data Collection Devices' deployment is scheduled to be completed in February 1999 with 300,000 devices installed at 35,600 facilities. In addition to supporting Delivery Confirmation, new software capabilities are under development to support data acquisition for the Collection Box Management System and Signature Confirmation. Implementation of these features is scheduled for early FY 99.

## E. Retail Programs

Roughly 88 percent of all retail revenue and 96 percent of all retail operating expense accrue from the Postal Service's classified post offices and contract units, full-service options. They are augmented by Stamps by Mail, by over 33,000 vending machines, and by stamp sales at thousands of commercial retail outlets and ATMs.

Retail is the way most Americans buy and use mail. This provides local access for the core product applications of correspondence and transaction mailing, domestic and international package shipping, and special services, including delivery through more than 18 million post office boxes. Our major customer segments are small businesses and consumers (customers using the mail for personal, rather than business reasons). Of total Postal Service retail revenue, it is estimated that consumers and small firms generate retail revenue of \$7.1 billion and \$8.3 billion, respectively (meters, permits, and corporate accounts not included).

### 1 FIELD RETAIL OPERATIONS IMPROVEMENT

In April 1998 the Postal Service approved Phase Two of the Field Retail Operations Improvement Plan. Under the direction of Vice President of Field Retail Operations, William Brown, this critical effort is testing whether a dedicated retail field management will result in measurable improvements in retail operating efficiency, profitability, customer satisfaction, and employee effectiveness.

Direct line-of-sight operations represent a fundamental change in how the Postal Service manages its retail resources in the field. By isolating retail functions and proactively managing them, the Postal Service will be better able to:

- plan and implement retail operations to meet market demands and customer needs;
- set revenue goals, monitor performance, and implement accountability for retail performance down to the unit level;
- establish and enforce standard procedures across all types of retail operations and outlets; and
- assign staff resources based on retail skill requirements and workload.

A limited pilot of this concept was conducted during 1997–98 in the Midwest Area. Phase Two will encompass 2,010 retail sites in all 16 Districts of the Midwest and Southeast Areas. It also will use permanent retail operations staffing as opposed to the ad hoc staffing used in Phase One.

Finance will oversee the measurement of the two Areas' results compared to a baseline period and to an unidentified control group of Districts outside the test Areas. Results will be measured on a variety of dimensions, including retail revenue, LDC 45 work hours, LDC 45 work hour costs, ease of use, retail unit proficiency, and employee attitude surveys. If Phase Two is successful and senior management grants its approval, Phase Three will involve a national rollout of the Field Retail Operations Group structure. Measurement of Phase Two of the project will begin when approximately 80 percent of the new staff is on board and will continue for one year.

### 2 RETAIL MARKETING CALENDAR

A major target for improvement exists in the use of in-store marketing materials and the planning and execution of retail promotions. Traditional customer communication has been a function of discrete promotional efforts produced as part of a larger product promotion. Once a promotion "window" was closed there was little or no ongoing information to help guide customers or support ongoing revenue-generation programs for products such as Priority Mail.

Managed by Headquarters and coordinated through the Areas, the calendar concentrates advertising resources against products targeted for growth and periods during the year when customers will be most willing to buy. These times, called drive periods, include Holiday, Valentine's Day, Tax, Spring, Summer, and Back-to-School.

Each drive period campaign will include an appropriate level of stamp-themed products and displays, in-store promotional support, employee

communications, consumer direct mail, and advertising. Holiday and Spring are major campaigns that will feature national television and magazine advertising, local radio, and print ads. The remaining campaigns will include a mix of local radio and print advertising. Advertising funds will also be provided to support field retail channel initiatives that will result in additional revenue.

Sustaining point-of-purchase systems are an important component of retail marketing and communications. These systems, composed of standard product/service signs and hanging hardware, provide fixed, semipermanent promotion of Priority Mail, Express Mail, Global Priority Mail, International Express Mail, and special services. Standard elements include menu boards to hang at the full-service counter along with companion banners in the self-service area, post office box, and full-service lobbies. Retail will begin to deploy the system in 7,000 offices starting on September 12 with approximately 12,000 outlets scheduled by AP9, Quarter 3 FY 99.

### 3 RETAIL SALES AND SERVICE TRAINING

Several training initiatives now being put in place should begin to pay off in improved product and services sales support at retail in FY 99. Changes in training content emphasize the retail proficiencies needed to achieve Postal Service business and service objectives. Content will also be adapted to take full use of the benefits of Point of Service (POS) One interface. Specific retail training is also being developed for Associate Supervisors, key players often left out of the loop in retail sales efforts.

Responsibility for a successful training program is a team effort. Postal product managers will provide background on customer needs and product benefits. Postal Service retail will then incorporate this information into standard training and help coordinate product implementation and training schedules; Areas and Districts must ensure that available training is being used and should also let Headquarters know when changes or additional training programs are needed.

Training processes as well as content are being changed. Retail employees may now receive training when it's needed, not just once at the start of their career. This just-in-time format will permit continuing education, with more on-the-job

emphasis and relevance. It also allows for updates and facilitates remedial support and refresher training. Other related programs that will be available for FY 99 include job aids describing products and services and their features; tools for recognizing exceptional performance as measured by Mystery Shopper; training on indicators to explain how clerk performance affects critical service and financial measures; and training for supervisors to include topics on leadership skills, product knowledge, and operations.

### 4 POINT OF SERVICE ONE

No retailer has prospered over the past several years, or will continue to survive, without using information technologies to improve service, grow revenue, increase margins, and reduce operational costs. Included among the many innovations developed and in wide use in commercial retail are computerized merchandising systems, point-of-sale workstations, scanners, and signature-capture devices. Each is being employed to revolutionize counter operations, add operating flexibility, and dramatically reduce operating cost structure.

In 1998, the Postal Service began the rollout of a new point-of-service system designed to take advantage of commercial learning and technology. POS ONE will replace current integrated retail terminals (IRTs) with commercial hardware and software, along with support services and training. Postal customers will receive vastly improved and more timely information about available services and will have immediate access to all options and costs to make quick, informed decisions. Other key features will include automated, online check and debit/credit authorization and improved inventory management.

By the end of December 1998, POS ONE will have been deployed to 878 outlets. During FY 99, continued deployment will include completion of Stage 1 to 4,287 retail facilities and Stage 2 to an additional 6,995 outlets.

POS ONE is also enabling development of a retail data warehouse, creating an entirely new ability for collecting, storing, linking, and reporting critical business information for postal management. Key product and revenue data will be used by the field to monitor retail channel objectives,

and for comprehensive sales analyses by product and by unit, with “drill-down” functionality for planners in their detailed market analysis. For the first time, information about products and services features will be available at the clerk’s fingertips, improving the experiences of both the clerk and the customer.

## **5 RETAIL WORKFORCE STRATEGIES**

The environment created by POS ONE and the introduction of open merchandising will certainly help us compete and increase retail revenue. In order for us to take full advantage of these investments, we must also consider changes to the retail workforce.

For example, Retail is currently testing new retail employee selection tools, training, and incentives with 100 employees working at six retail outlets. Tools and training used in the test were developed from extensive commercial benchmarking. This test, which began in 1998 and continues through FY 99, will validate their use for Postal Service retail. In a separate activity that supports field efforts to make better use of part-time/full-time ratios allowed by the National Agreement, Retail is creating a staffing optimization tool that will help minimize operating expense while ensuring that sufficient service staff are deployed where and when customer demand is greatest.

The retail clerk uniform was redesigned in 1998 to create a new line of Business Wear to be more consistent with our new retail image. This apparel was designed based on employee and customer research and feedback.

## **6 RETAIL PROFICIENCY**

Retail Unit Proficiency is one of the *CustomerPerfect!* indicators for Voice of the Employee. The indicator is currently being tested, and will roll out along with the National Mystery Shopper program in FY 99. Retail Unit Proficiency is an index that measures several key drivers of retail performance: clerk helpfulness, clerk courtesy, professional appearance, and financial ability. The index is used to assess the proficiency of a retail unit as a whole; it will not be used to evaluate or discipline individual employees. Of the four components of the index, helpfulness and courtesy are given the highest weights (35% each), partly because they have the strongest link to our Voice of the Business and Voice of the Customer goals.

The National Mystery Shopper program is a key element of efforts to improve both retail proficiency and ease of use. The customer’s eye view that Mystery Shopper provides is an invaluable tool for assessing retail performance and targeting improvement opportunities at the unit level. Based on the shopper’s experience, each office is rated on wait time, service, sales skills, and compliance to standards. Shops are conducted at least twice each quarter at all classified and contract units generating retail revenues of at least \$500,000.

## **Process Management**

To help focus field efforts to improve ease of use, revenue, and other key corporate goals, the Postal Service is aggressively pursuing process management of the core activities that drive performance and customer satisfaction. In the past, performance suffered from weak and inconsistent management of core processes from one office to the next. Starting in 1998 and continuing through FY 99, Headquarters Retail and the Retail Field Operations Group will team in documenting those processes with high impact on service and finances. They include staffing and scheduling; performance measurement; local compliance with standard procedures; budget and financial planning; hiring, training, and development; site location and relocation; merchandising; and unit design.

## **7 POSTAGE METERS**

Postage meters continued to be a viable method for the application of postage. In 1998, the 1.63 million meters in service generated over \$21 billion in commercial revenue. This revenue accounted for 37 percent of all postal revenue. During 1998, continued emphasis was placed on three major meter initiatives designed to take fuller advantage of this link to small firms: decertification of mechanical postage meters, data management, and development of new intelligent indicia.

Decertification involves the removal of more than 750,000 nonsecure mechanical meters from the marketplace and replacing them with more secure digital postage metering devices. To date 64 percent, approximately 500,000, of the meters have been replaced.

The Centralized Meter Licensing System (CMLS) provides for an administrative process involving the exchange of information between customer, postage meter manufacturers, and the Postal Service and the administrative basis for the processing of postage meter license applications. Eventually, CMLS will also track all meter placements and withdrawals. The use of EDI is employed to move massive numbers of transactions between the postage meter manufacturers and the Postal Service. Our work to reconcile Postal Service records of postage meters in the Meter Accounting Tracking System (MATS) with the manufacturers is 95% complete. Final cleansing will occur in the first quarter of FY 99.

The Information Based Indicia Program (IBIP) involves the development of new technology to produce forms of postage payments through the use of two-dimensional barcodes and cryptographic services from personal computers. This new technology will support postal efforts to reduce fraud and the potential for misuse currently associated with mechanical postage meters. Three products have completed rigorous laboratory testing and received authorization to proceed with field beta testing. The first to start field testing has expanded to Phase 2 of the three-phase beta testing approach. At least a half dozen more products are in various stages of product submission and laboratory testing. The program is projecting the spring of 1999 for commercial distribution of PC Postage-certified products.

## 8 SELF-SERVICE

Today, most postal customers access retail services over the counter in a post office or contract station. Only three percent of the retail revenue comes from self-service vending, largely because equipment has not been optimally located and has not met customer expectations. Therefore, during 1998, the Postal Service focused its self-service programs on the following four areas.

### a. Replace Obsolete Equipment

There are approximately 37,500 pieces of self-service vending equipment currently in the field. At least 70 percent are rapidly approaching a point where they will not function.

### b. Streamline the Equipment Mix

Today there are 28 different machines in use. By creating families of multiproduct, multipayment machines, the number of different units required can be pared down so that one machine replaces many in each location. Retail's objective is to reduce the number to six or fewer machines, thereby lowering the overhead and administrative expense.

### c. Lower Costs

Costs associated with today's vending operation are relatively high. This is exacerbated by the number of different machines, each requiring its own unique set of repair parts, training, and in some cases stock. By replacing old machines with electronically linked equipment, we will reduce parts inventory, warehousing, and product shortages and begin to take advantage of cost efficiencies from remote diagnostics and reduced cash transactions. It is projected that costs can be driven as low as \$0.03 per revenue dollar.

### d. Improve Service

Retail has received funding approval to procure an additional 5,000 vending machines for distribution to the field units. These units will have added payment capability, which will support the longer term vision of enabling customer payments with debit and credit cards. In addition, the units will communicate transaction-level data to a central host that will act as the central management facility. This approach will allow us to achieve greater reliability and more accurate sales information.

In addition, the new vending machines will allow us to replace old and aging equipment and eliminate the coin-only vending units and bill changers currently in use. Elimination of this equipment will help lower costs by reducing the number of models of equipment requiring replacement parts and training. The Postal Service is also working on several new uses of technology to further leverage our desire for lower cost and greater customer satisfaction. One such example explores the use of IBIP as an alternative method of providing any denomination of stamp to our self-service customers.



## F. Marketing Systems Business Mail Entry Channel Plan

Key among Marketing Systems' accomplishments in 1998 was the development and rollout of the Business Mail Entry (BME) Channel Plan. The BME channel is an essential point of interaction between the Postal Service and its business customers. Within each of its three stages of process—Mail Preparation, Mail Acceptance, and Handoff to Operations—the BME Channel Plan was structured to become a determiner of appropriate verification processes for business mailers. The BME channel is a seamless process offering its customers ease of use, consistency, efficiency, cost effectiveness, and improved mail service.

### 1 BUSINESS MAIL ACCEPTANCE

In support of the Business Mail Entry Channel Plan and its commitment to simplify bulk mail acceptance and verification transactions, Business Mail Acceptance initiated several significant improvements during 1998 in three critical areas.

#### a. Acceptance Process Improvements

- Mail Preparation Total Quality Management (MPTQM)—Program participation provides mailers with a complete set of quality measures to produce high-quality mail on a daily basis.

- Manifest Analysis and Certification (MAC)—A voluntary program that analyzes and certifies the accuracy of vendor-supplied manifest mailing software. MAC determines the validity of postage payment calculations, facsimile postage statements, and other documentation produced from the software.

- Automated Barcode Evaluator (ABE)—A computerized system that examines letter size automation for barcode readability. May 1998 marked the implementation of Phase 1. The ABE program is dedicated to increasing the quality of barcodes from our customers. Since implementation of Phase 1, over 45,000 mailings have been tested on ABE systems, with less than 2.5 percent falling below the 70 percent acceptance criteria.

- Mailpiece Quality Control (MQC) Program—A self-study course for customers, that reinforces their understanding of the needs and requirements of Mailpiece Design and provides an opportunity to increase proficiency and confidence levels.

- Standard Acceptance and Verification Procedures (SAVE)—A standard procedure developed for acceptance clerks to verify letter mailings produced by MLOCR.

#### b. Business Mail Entry Unit (BMEU)

##### Employee Development

- BMEU Proficiency Training—Customer relations skills and technical training provided to BMEU employees to improve proficiency and job performance.

- BMEU Employee Uniform Program—Unique uniforms developed and provided to BMEU clerks.

#### c. Customer Advisory Groups

Continued sponsorship of the Publishers Advisory Group (PAG) and the Nonprofit Advisory Group (NAP). These groups are composed of industry leaders who meet and consult with postal management on efforts to promote cooperation on mailing issues and concerns.

### 2 MAIL PREPARATION AND STANDARDS

The DMM, with the online premiere of Postal Explorer in 1998, is now Internet accessible to postal customers. Postal Explorer includes updates to the DMM, Quick Service Guides, Customer Support Rulings, and other publications. DMM changes outlining R97-1 rates, fees, and classifications, were published July 1998, providing information to postal customers in advance of the January 10, 1999, effective date. For the very first time, both the proposed DMM changes and the final standards published in the *Federal Register* were posted on the Postal Service Web site.

The non-letter size BRM two-year experiment, currently evaluating two methods of bulk processing instead of weighing and rating each piece individually, was reviewed and approved by the Postal Rate Commission and Governors and may run to June 8, 1999. The goals of the experiment are to evaluate a proposed accounting method and fee structure and to assess revenue impact of the proposed BRM fee structure. Weight averaging, one of the methods, has been automated with software developed during the experiment and is proving especially promising. Four customers are

participating: Nashua/York, Parkersburg, WV; Seattle FilmWorks, Seattle, WA; District Photo, Beltsville, MD; and Mystic Color Lab, New London, CT. The implementation team involved in this experiment ranges from the Vice President of Marketing Systems to Postmasters and Postage Due Clerks in the field.

Effective October 4, 1998, automation discounts were extended to flats such as newspapers, tabloids, and catalogs that meet requirements for processing on the FSM 1000 Flat Sorting Machine.

#### **4 BUSINESS CUSTOMER SUPPORT SYSTEMS**

A list of successes, including documentation and validation of mail acceptance requirements for all classes of mail, and the completion of an alignment process to formalize both current and future business requirements for a new, comprehensive business mail information system, were attributed to the efforts of Business Customer Support Systems during 1998. This alignment process also identified requirements that will encompass the functionality of a new system as well as the interfaces required to exchange information with other postal systems and external mailer systems.

##### **a. Direct Link Pilot Program**

The Direct Link Pilot Program successfully demonstrated that an electronic business partnership is not limited by class of mail or by a particular type of preparation (i.e., manifested, single-piece, or presorted). The program enabled four pilot sites to work closely with the Postal Service to more clearly and consistently define the electronic interface requirements needed to support the electronic business partnership. The Direct Link Pilot Program was concluded at the end of 1998, and a new program, Business Customer Support System, was initiated in April 1998 to continue the emphasis on the electronic business partnership and to provide the infrastructure to support *PostalOne!*

##### **b. Business Customer Support System (BCSS) Program**

The purpose of this program is to complete the development and implementation of a comprehensive business mail support system, including electronic information access, electronic documentation, electronic verification and acceptance, and electronic payment processing functionality for all classes of mail received in bulk from major business mailers. BCSS includes the integration of existing programs that provide electronic

business partnership functionality (i.e., Mailer Enterprise Integration, Multiple Entry Point Payment System) and includes the redesign of the Permit System.

##### **c. Centralized Account Processing Systems (CAPS)**

The CAPS program provides electronic postage payment through one account for multiple permits located at various locations. During 1998, the CAPS customer base grew to over 600, and the CAPS program processes approximately \$3.4 billion per year. CAPS functionality is being incorporated into the Postal Electronic Payment Platform (PEPP), which will allow for payment of various fees through one national account.

#### **5 REVENUE INDICATORS**

FY 1998 brought clarity to sales accountability through implementation of the AccountNet System, a process of assignment-making, which solves the long-standing need to identify and link mailing sites with National and Premier Accounts. This system drives both the Postal Service Sales Report and the Corporate Business Customer Information System. AccountNet also is used by Consumer Affairs to establish customer segments samples for Customer Satisfaction Measurement-Business, thereby driving the Ease of Use index. Implemented by all Districts and Areas using Intranet technology, the system has identified 2.4 million mailing sites. Approximately 120,000 of these mailing sites are associated with the 15,000 Premier and 238 National Accounts.

Significant improvements in 1998 were made in the Postal Service's quality and quantity of Meter Data. These improvements, consisting of systematic data cleanup measures and revised processing procedures, facilitated the removal of information "bottlenecks" that had previously limited the accessibility and usage of Meter Data to local district only. With the implementation of these processes, Meter Data, which represents nearly 40% of all Postal Service revenue, has now been successfully incorporated into the reporting provisions of the Corporate Business Customer Information System. In addition, historical information reprocessed since implementation of these improvements resulted in nearly complete information being available back to the first accounting period of 1997.

## G. Information and Research Programs

### 1 NEW BUSINESS OPPORTUNITIES

#### a. PostOffice Online (formerly called Desktop Post Office)

The PostOffice Online is the Postal Service's initiative to use the Internet as a channel to help small businesses and small offices/home offices (SOHOs) move merchandise, money, and messages conveniently and securely. The PostOffice Online will bring together, under a single Web-enabled facility, those Postal Service offerings of greatest use by small businesses and home offices. The benefits to small businesses of bringing the Postal Service to the desktop computer include convenience, security, and assured reliability.

Our primary product focus will be on bringing to the desktop computer core Postal Service products of proven relevance to Small Businesses and SOHOs. These are:

- First-Class Mail, allowing the users to create documents and envelopes and to purchase and apply postage, direct from their desktop;
- Express and Priority Mail, allowing the users to schedule pickup, create mailing labels, and purchase and apply postage from their desktop; and
- Mailing Online (formerly called NetPost), a hybrid mailing service, allowing the users to initiate mailings by creating a document on their computer, sending it (along with a mailing list) electronically to the Postal Service, and having a postal-approved vendor print, assemble, and mail the documents.

In addition, we will offer product enhancements such as the electronic postmark, which provides e-mail senders and recipients assurance of message delivery.

The PostOffice Online will provide a platform for increased revenue from our core products and new revenue from the Mailing Online hybrid mail product. Limited operations and market tests began in early 1998 and will continue into 1999.

#### b. Customer Initiated Payment System (CIPS)

CIPS is a hybrid bill-payment alternative. A consumer pays a bill by simply returning a barcoded reply postal card to the biller. The Postal Service collects the barcode data and transmits it to a financial institution where it is converted to a payment transaction and processed. This service provides a consumer with control over the date of the payment, and it lowers the cost of processing for the biller and reduces mail float, the time the payment is in the mail stream.

CIPS has been successfully tested in operation. Presently we are seeking billers to initiate a market test.

#### c. Money Mover

Money Mover is an umbrella program for our existing international and domestic money order business and a new money-by-wire service covering both domestic and international markets. This service allows moderate-income consumers to move funds safely and conveniently in both paper and electronic forms.

Dinero Seguro (Safe Money) is our first money-by-wire product, initially targeting Mexican immigrants, but designed for expansion to additional immigrant markets. We are currently in a market test involving 870 post offices in California, Texas, and Chicago.

We will launch "Efectivo Postal," a hybrid money order product available from the United States to Mexico in early 1999. We will begin testing in six post offices, then expand the service with Dinero Seguro.

#### d. LibertyCash

LibertyCash is a stored value card, initially to be used for payment of postal products and services at retail units. We plan to expand the applications of this card to include other postal services and acceptance by other retailers. LibertyCash gives small businesses and consumers a safe and convenient method of paying for postal services. We completed an operations test in 13 post offices in Colorado and California, and are currently in a market test in 2,800 retail units in Colorado, Florida, Indiana, Nevada, Northern California, Wyoming, and the Minneapolis/St. Paul, MN, area.

**e. FirstClass PhoneCard**

The FirstClass PhoneCard is a prepaid phone card that provides customers with a convenient, cost-effective method of making both domestic and international long-distance telephone calls. We continue to offer cards featuring attractive stamp images, and now sell the FirstClass PhoneCard at 12,500 postal retail units.

**f. REMITCO**

REMITCO is a very high volume retail remittance payment service. It is planned as a national network of processing locations. Its goal is to improve mail-based remittance processing services, by reducing mail float, and improving remittance operations. These improvements will be shared with all remittance processors. The combination of improved availability of funds, reduced processing costs, and improved quality may lessen the rate of conversion by consumers to alternative payment mechanisms. We are presently in a market test in New York.

**g. Electronic Postmark**

The Electronic Postmark™, when integrated into e-mail and Web-based messaging services, provides security to both the sender and receiver. This service is intended to support business-quality electronic correspondence and transactions. The postmark is now integrated into one messaging service and undergoing its final reviews. Both fully functional services will then be used in limited market tests to corporate clients within the financial, legal, health care, and government sectors. The limited market tests are intended to validate market interest and price sensitivity in the Electronic Postmark. The tests should also yield information that will help to refine current features and give indicators of future enhancements, operational infrastructure required, and the level of marketing and customer relations support required.

**2 INFORMATION SYSTEMS**

The focus of Information Systems in 1998 was to support the technology architecture and application development of the major programs described elsewhere in this document (e.g., Corporate Call Centers, Delivery Confirmation, Business Customer Support/MEI, Point of Service (POS), Post Office Online). Information Systems also continued expanding the postal information technology infrastructure. This infrastructure provides the foundation for connecting postal operating units, customers, and suppliers.

**a. The Postal Information Technology Infrastructure**

The continuing focus of this program is to enable key Postal Service business initiatives and business process improvements by building a standard information technology infrastructure upon which systems can be deployed in postal facilities in a fast and cost-effective manner. This infrastructure provides these facilities basic technology, such as electronic messaging, communications connectivity, office automation, and a platform for business-specific tools and applications. In 1998, we have extended this infrastructure to reach more than 4,000 postal facilities by providing them with a communications and computing platform. We expect to extend this to an additional 4,000 postal sites in FY 99. The infrastructure also provides electronic distribution of functional and informational updates, as well as administrative and operational support to new customer-centric technology deployments such as Point of Service terminals and Delivery Confirmation systems.

**b. Year 2000**

In 1998, the Postal Service completed ordering agreements with service providers who have committed to its support, ensuring access to external resources even as competition increases for high-quality providers. With service providers, senior leadership, and rigorous policies and processes in place, the Postal Service is continuing to evaluate, test, and update all corporate software and hardware to determine which systems are at risk of being adversely affected by the millennium change. The Postal Service will complete the necessary date-related activities and remediation critical to continued operation and success to and through the year 2000.



## H. Workforce Planning and Service Measurement

Workforce Planning and Service Measurement directs strategic initiatives to control work-hour cost, develops long-term labor strategies to minimize the economic impact of seasonal mailing patterns, analyzes employee mix and workforce flexibility to help the field achieve its service and budget objectives, and directs efforts to support labor contract compliance. Service analysis is provided to the field for First-Class and Priority Mail, and service databases are maintained and managed in order to provide company-wide access to diagnostic data. Additionally, several operations redesign projects are in place to test and design operations, processes for the future.

### 1 ADVANCE

ADVANCE is designed as a delivery confirmation system. ADVANCE tracks the delivery performance of qualified Standard Mail (A) and Periodicals mailings in over 8,000 delivery units and 10,500 five-digit ZIP Codes. Participating mailers submit their mailing information to the National Customer Support Center (NCSC) at least eight days prior to the requested "begin" in-home delivery day. Delivery units receive advance notification of a mailing and must report when the mail arrived at their delivery unit, when delivery began, and when delivery is completed. These delivery event dates are provided to our participating external customers through the ADVANCE Mailer Web site, the Rapid Information Bulletin Board System (RIBBS), or hard copy reports. ADVANCE initially used cc:Mail to track and transmit delivery confirmation information; however, we are currently in the process of deploying a Web version of ADVANCE. We have activated 32 of the 85 performance clusters as of September 1, 1998, and plan to complete national deployment by the end of calendar year 1998. The Web version of ADVANCE has several major advantages:

- Data entry is easier for the delivery units.
- Data transmission time has been reduced.
- Delivery performance and reporting compliance reports are more timely and retrieval is more user friendly.
- The software development cycle has been substantially reduced.

- The software supports the concept of customization to meet the various needs of the Area offices.

ADVANCE adds business value in several important areas:

- It provides delivery confirmation information to our external Standard Mail (A) and Periodicals customers.
- It is assumed that the offering of delivery confirmation information to these external customers will retain our existing mail volume/revenue(s) for these mail classes and facilitate a growth in time-sensitive mailing revenue.
- It provides advance notification of time-sensitive mailings to our Area and District offices which allows them to monitor the acceptance and processing of ADVANCE mailings.
- It provides advance notification of time sensitive mailings to our delivery units, which allows them to make the operational adjustments necessary to meet the delivery needs of our external customers.
- ADVANCE is used as the delivery performance measurement system for the FY 99 VOC target for the Timely Delivery of AD Mail.

### 2 THE COLLECTION BOX MANAGEMENT SYSTEM

The Collection Box Management System (CBMS) is designed to provide a monitoring tool for delivery unit management to ensure adherence to our collection box schedules and policies. The system at present consists of a data collection device that taps a touch button located inside a collection box to collect time and date information. The information collected by the data collection device is then placed in a data transfer device at the delivery unit for downloading into the Delivery Unit Computer. The data is then loaded into the CBMS Remote Software program, which allows delivery unit management to quickly ascertain the status of each collection box. During this fiscal year we expect to complete the transition from wand/touch button technology to the use of the mobile data collection device that is being deployed for Delivery Confirmation. A Web-based version of the CBMS software is scheduled for development during FY 99.

### 3 TRAINING

We are continuing to provide field training sessions and individually tailored presentations to enhance our employees' understanding of, and ability to use, available tools for service performance monitoring and analysis. We have recently partnered with the Consumer Advocate to present a Postal Satellite Training Network broadcast on the expansion of the External First-Class Measurement System (EXFC). A new EXFC training video has been completed and will be distributed to field operating units.

An update and revision of the *Transit Time Measurement System (TTMS) User's and Reports Guide* is currently in progress.

### 4 STAFFING AND SCHEDULING

Our future success as an organization will be significantly influenced by our ability to use work hours efficiently and to maintain stability in our total complement relative to workload. New administrative staffing criteria projects will be launched this year, along with the development of staffing and scheduling modeling tools to assist postal managers in this important area.

Administrative staffing criteria reviews will follow a three-step process. First, we will determine the role and range of responsibilities to be carried out by these jobs and organizations by analyzing the work content currently being performed and the expectations of functional area managers, and then making hard decisions on what we specifically expect. Second, we will identify (1) the factors that determine workload and (2) how duties assigned can be linked to specific factors that predict workload. Finally, we will establish a method for measuring the workload and linking the process of allocating positions nationwide without increasing the overall complement unless justified from a workload standpoint. Workforce Planning and Service Management staff, as well as knowledgeable personnel from the Area offices and performance clusters, will perform these analyses. This type of systematic staffing review provides us the opportunity to explore the use of new and more effective methods of determining workload-based staffing levels.

Several efforts are under way to develop computer models to help field managers develop workload-based multiyear complement plans that

anticipate complement needs and deploy people to meet organizational requirements. As these models are deployed, we will provide training support for these new planning models now under development.

In addition, we are developing a Voice of the Employee complement metric to measure and report variance to projected complement plan. This approach will provide process management tools and functional line-of-sight from Headquarters to the District level.

Workforce Planning and Service Management administers casual and transitional employee complement ceilings using the computerized Human Resources Complement Management System to ensure compliance with national labor agreements.

Ongoing efforts will be focused on ensuring uniformity and consistency in staffing and in maintaining the flexibility to adjust staffing as workload shifts. Many current staffing authorizations are outgrowths of organizations that no longer exist and do not accurately reflect the work performed. Where this occurs, new staffing guidelines will be developed or existing guidelines revised.

### 5 MAILER ENTERPRISE INTEGRATION

In 1998 Mailer Enterprise Integration, an initiative that was successfully tested in 1997, was designated as a Postal Service Strategic Initiative and was successfully transitioned to Marketing Systems for national deployment. Under Mailer Enterprise Integration (now called Postal One) the core processes of acceptance, transportation assignment, and mail induction are combined and integrated into the customers' mail production process. In the proof-of-concept pilot, the Charlotte, NC, AT&T mailing plant partnered with the Postal Service to combine the above processes with the mailer's production process in a real-time fashion. As a result, overall cycle time, mailer and Postal Service costs, and mail staging time are reduced.

# I. Productivity and Performance Measurement

The Postal Service produces a productivity measurement that takes into account all factors of production. The measurement, Total Factor Productivity (TFP), measures the changes in the relationship between outputs and the inputs or resources expended in producing those outputs. The Postal Service's main outputs are mail volumes and servicing an expanding delivery network. TFP weights different types of mail volumes to account for variations in workload content due to factors such as size (e.g., letter vs. parcel), weight, preparation (e.g., prebarcoding and presorting), and mode of transportation (e.g., air vs. highway). In addition to labor, TFP takes into account capital and materials inputs, such as mechanized and automated equipment, facilities, transportation, and other nonpersonnel costs. By tracking outputs and resource usage, TFP provides a measure of historical performance. A comparable measure in the private sector is Multifactor Productivity (MFP) for private nonfarm business, which is reported by the Bureau of Labor Statistics (BLS).

The Labor Productivity (LP) component of TFP uses only labor input as a measure of resource use. The table below shows annual and cumulative TFP and LP for the past six years.

FY	Postal Service TFP Growth (%) <sup>1</sup>		Postal Service LP Growth (%) <sup>1</sup>	
	Annual	Cumulative	Annual	Cumulative
1993	3.8	3.8	4.4	4.4
1994	-0.1	3.7	0.7	5.0
1995	-1.8	1.9	-1.3	3.7
1996	-1.2	0.7	-0.2	3.5
1997	1.2	2.0	1.6	5.1
1998	-1.1	0.9	1.2	6.3

In FY 93, TFP and LP showed exceptional growth. This was followed by weak growth or declines in FY 94 through FY 96 and strong growth in 1997. In 1998, TFP declined by 1.1 percent while labor productivity increased 1.2 percent. It is not uncommon for TFP and LP growth to fluctuate from one year to another. Over the long run, a successful organization will average positive growth in productivity.

From FY 88 to 1998, Postal Service TFP has increased at an average annual rate of 0.2 percent, comparable to the average gain of 0.3 percent reported for private sector nonfarm business MFP in the same period. The table below provides a side-by-side comparison of the percent changes in TFP and MFP on an annual as well as cumulative basis.

FY	Postal Service TFP Growth (%)		Postal Service MFP Growth (%) Private Nonfarm Business	
	Annual	Cumulative	Annual	Cumulative
1988	0.3	0.3	0.3	0.3
1989	-0.5	-0.2	0.2	0.5
1990	3.0	2.8	-0.7	-0.2
1991	-1.7	1.1	-1.4	-1.6
1992	0.5	1.5	1.7	0.1
1993	3.8	5.3	0.2	0.3
1994	-0.1	5.3	0.3	0.5
1995	-1.8	3.4	-0.2	0.3
1996	-1.3	2.2	0.9	1.2
1997	1.0	3.2	1.3 <sup>1</sup>	2.5
1998	-1.1	2.2	0.5	3.0

<sup>1</sup> 1997 and 1998 Private Nonfarm Business Multifactor Productivity figures are DRI/McGraw-Hill forecasts as these figures have not yet been released by the BLS.

The Postal Service's objective is to improve TFP over time consistent with or exceeding the private sector improvement of MFP. This objective is balanced against service improvements that are necessary to improve customer satisfaction and maintain a competitive position in the marketplace. Expenditures to enhance service may cause a short-term decline in the growth of TFP because Postal Service TFP does not currently include a measure of service quality. For example, in order to boost customer satisfaction the Postal Service has extended window service hours and placed more customer-friendly self-service equipment in the postal lobbies.

In addition to service enhancement expenditures, the Postal Service has also made significant investment in new technologies to control labor costs. These investments, though consistent with our long-term strategy of substituting capital for labor, may have a short-term negative impact on TFP due to implementation costs and the difference between the timing of costs and the realization of savings. A good example of deferred benefits is our investment in Remote Barcoding Systems (RBCS), which results in slower growth in delivery labor costs by bringing more mail into the automation stream. The benefits of remote barcoding principally arise from downstream Delivery Point Sequencing (DPS). These benefits were deferred, however, because DPS requires that a critical mass of barcoded mail be available before delivery routes are converted to DPS.

In line with its strategic plan, and as outlined in the Annual Report for 1998, the Postal Service has made aggressive capital investments in technology and infrastructure to improve the distribution and delivery of mail as well as reduce labor costs. Some outstanding examples of the latest investments in new technologies include the purchase of delivery barcode sorters, carrier sequence barcode sorters, and additional remote barcoding systems. As we realize savings from the latest investments in new technologies, average TFP should show positive growth.

An additional factor to be considered in reviewing the Postal Service's productivity performance is the impact of the Postal Service work-sharing discounts to mailers. With Classification

Reform, the Postal Service is now offering even greater economic incentives to mailers who prepare their mail for reduced handling by the Postal Service. These incentives have shifted a greater proportion of the workload associated with automation-compatible mail to business mailers. Even though the worksharing discounts provide cost savings for the Postal Service and increased worksharing enhances the productivity of the economy as a whole, this transfers some of the Postal Service's prime productivity improvement opportunities to our partners, the mailers.

In summary, TFP growth in the Postal Service has been comparable to growth in private sector nonfarm business MFP. Annual TFP growth may vary for several reasons. Expenditures to enhance service and improve customer satisfaction may cause short-term declines in TFP growth. TFP can also fluctuate from one year to another due to timing differences between major investments and the savings realization from those investments. It is important to look not only at annual TFP growth, but also at the factors, such as improvements in service quality affecting annual TFP growth and TFP growth over time, when reviewing productivity performance.



# CHAPTER THREE Financial Highlights

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## A. Financial Status

### 1 GENERAL

The Postal Service recorded \$60.072 billion in operating revenues in Fiscal Year 1998. Operating expenses for the year totaled \$57.778 billion, resulting in an income from operations of \$2.294 billion. With investment income of \$44 million, Post Office Department (POD) workers' compensation expense of \$8 million, debt interest expenses of \$167 million, a \$1.597 billion interest expense on the deferred retirement liabilities and imputed interest on OBRA of 1993 of \$16 million, our net income in Fiscal Year 1998 was \$550 million. (See Table 3.1)

As of September 30, 1998, the net capital deficiency of the Postal Service was \$810 million. (See Table 3-8.)

#### APPLICATION OF FUNDS (FY 98) (dollars in millions)

Activities	Expense	Percent
Mail processing and window services	\$17,665	29.6%
Delivery services	16,964	28.5
Service-wide expenses	5,411	9.1
Post office supervision and administration	5,000	8.4
Transportation of mail	4,207	7.1
Building occupancy supplies and services	4,865	8.2
Building and equipment maintenance and support	2,571	4.3
Depreciation and amortization	1,579	2.6
Headquarters, Area administration, and Inspection Service	1,304	2.2
Total	<u>\$59,566</u>	<u>100.0%</u>

TABLE 3-1  
INCOME AND EXPENSE STATEMENT  
(dollars in millions)

	FY 1998	FY 1997	Difference	Net Change (%)
Income:				
Mail revenues	\$58,039	\$56,267	\$ 1,772	3.1%
Special services	1,966	1,866	100	5.4
Revenue forgone*	67	83	(16)	-19.3
Operating revenue	<u>60,072</u>	<u>58,216</u>	<u>1,856</u>	3.2
Expense				
Compensation and benefits	45,588	43,835	1,753	4.0
Other costs	12,190	11,038	1,152	10.4
Operating expense	<u>57,778</u>	<u>54,873</u>	<u>2,905</u>	5.3
Income from operations	2,294	3,343	(1,049)	-31.4
POD workers' compensation expense	(8)	(258)	250	-96.9
Interest income	44	115	(71)	-61.7
Interest expense on deferred retirement liabilities	(1,597)	(1,597)	0	—
Interest expense on borrowings	(167)	(307)	140	45.6
Imputed interest on OBRA of 1993	(16)	(32)	16	50.0
Net income	<u>\$ 550</u>	<u>\$ 1,264</u>	<u>\$ (714)</u>	-56.5

\* Includes \$10 million in Fiscal Year 1998 and \$22 million in Fiscal Year 1997 to accrue net financial impact of the Revenue Forgone Reform Act of 1993.

A significant component of our expense includes cost transfers from the government. Table 3-2 shows the magnitude of these transfers, which totaled \$5.940 billion in Fiscal Year 1998.

The transfer to the Postal Service of responsibility for postal annuitant costs began with the 1985 Omnibus Budget Reconciliation Act (OBRA), which required us to fund health benefit costs for all postal annuitants who retired after September 30, 1986.

Subsequent OBRAs expanded our responsibility for annuitant health benefit costs and included annuitant cost-of-living adjustments (COLAs). Currently, we are responsible for our share of health benefit costs and COLAs of postal annuitants who retired after June 30, 1971, and their survivors. As noted in Table 3-2, the total cost of postal annuitant COLA and health benefits transferred to us as a result of all OBRAs since 1985 was \$13.4 billion through Fiscal Year 1998. This table also details the \$66 billion in costs transferred to us from the taxpayer since the early 1970s. The transferred costs of Civil Service Retirement System annuitants' COLAs and annuitants' health benefits will grow rapidly over the next few years, creating upward pressure on postal rates.

## 2 INCOME

### a. Mail and Special Services Income

Revenues from mail, services, and appropriations in Fiscal Year 1998 totaled \$60.1 billion (see Table 3-3). Revenues from mail were up 3.1 percent and services revenue increased by 5.3 percent.

TABLE 3-3  
SOURCE OF INCOME  
(dollars in millions)

Mail revenue	\$58,039
Special services	1,966
Government appropriations for free and reduced rate mail	67
Total operating revenue	60,072
Total operating expenses	57,778
Income from operations	2,294
POD workers' compensation expense	(8)
Interest and investment income	44
Interest expense—borrowing	(167)
Interest expense—deferred retirement liability	(1,597)
Imputed interest on retroactive assessment of employee benefits	(16)
Net income	\$ 550

TABLE 3-2  
SELECTED COSTS TRANSFERRED FROM U.S. GOVERNMENT TO THE POSTAL SERVICE  
(dollars in millions)

	FY 1991 and Prior	Fiscal Years							
		1992	1993	1994	1995	1996	1997	1998	Total
CSRS deferred liability	\$17,181*	\$1,896	\$1,996	\$1,996	\$2,134	\$2,362	\$2,396	\$2,447	\$32,408
Public service costs**	5,574	460	460	460	460	460	460	460	8,794
Excess of FERS over CSRS	3,954	1,049	1,108	1,198	1,363	1,385	1,483	1,569	13,109
CSRS retirement (OBRA of 1987)	350	—	—	—	—	—	—	—	350
FEHB Fund (OBRA of 1987)	430	—	—	—	—	—	—	—	430
Post-86 annuitant health benefits (OBRA of 1985)***	329	—	—	—	—	—	—	—	329
Post-86 CSRS annuitant COLA (OBRA of 1989)***	74	—	—	—	—	—	—	—	74
Post-71 annuitant health benefits (OBRA of 1990)	328	380	510	519	523	497	548	581	3,886
Post-71 CSRS annuitant COLAs (OBRA of 1990)	421	491	551	620	689	750	817	859	5,198
Prior year annuitant COLA and health benefits costs	1,901	81	70	54	34	—	—	—	2,140
OBRA 1993	—	—	857	43	45	47	32	16	1,040
Balanced Budget Act of 1997 (POD)	—	—	—	—	—	—	258	8	266
Total	\$30,542	\$4,357	\$5,552	\$4,890	\$5,248	\$5,501	\$5,994	\$5,940	\$68,024

\* Excludes \$285 million relating to Fiscal Years 1972–1974, which was reimbursed by special appropriations.

\*\* Reimbursement amounts authorized by Postal Reorganization Act, but not received.

\*\*\* OBRA 1985 and OBRA 1989 were superseded by OBRA of 1990.

Note: The cumulative impact of all OBRAs since 1985 through FY 98 was \$13.4 billion.

### b. Interest and Investment Income

The Postal Service's interest and investment income for Fiscal Year 1998 was \$44 million (see Table 3-3).

### c. Appropriations

The Postal Service is authorized to receive three categories of reimbursements: public service, transitional costs reimbursements, and revenue forgone (see Table 3-4).

The public service appropriation reimburses us for providing uniform, nationwide mail service. By law, we are currently authorized to request \$460 million for public service. However, we neither requested nor received any public service appropriation for Fiscal Year 1998, even though we continued to provide service throughout the country. This marked the 16th consecutive year that no public service subsidy was provided.

The transitional cost category reimburses us for workers' compensation payments for injuries to employees of the former Post Office Department so that current rate payers are not burdened by debts incurred over 25 years ago. In the Balanced Budget Act of 1997, Congress transferred the remaining liability for the old post office workers' compensation costs to us.

We received a revenue forgone appropriation of \$57 million in 1998 to fund free rates for the blind and for overseas voting. An additional \$10 million was accrued in 1998 to reimburse us for certain revenue forgone amounts due under the Revenue Forgone Reform Act of 1993.

Appropriations accounted for only 0.1 percent of our total mail revenue in 1998 compared with 31.3 percent prior to the Postal Reorganization Act in 1971 and 2.3 percent in 1986.

## 3 COSTS

### a. General Analysis

Operating expenses increased from \$54.9 billion in Fiscal Year 1997 to \$57.8 billion in Fiscal Year 1998 (see Table 3-1).

Personnel and related costs grew 4.0 percent to \$45.6 billion in Fiscal Year 1998. Nonpersonnel expenses—including transportation, supplies, and services—increased by 10.4 percent over Fiscal Year 1997.

TABLE 3-4  
HISTORICAL AND PRESENT-YEAR IMPACT OF CONGRESSIONAL  
APPROPRIATIONS ON MAIL REVENUES, FYS 1971, 1976, 1986, 1998  
(dollars in millions)

Year	Total Mail Revenue	Mail Revenue Without Appropriations	Appropriation Category	Income From Appropriation	Appropriation as a Percentage of Total Mail Revenue
FY 71*	\$ 8,752	\$ 6,665		\$2,087	31.3%
			Deficiency in rates and fees; and Public Service	2,087	
FY 76	\$12,844	\$11,199		\$1,645**	12.8%
			Free and Reduced Rate Mail Reconciliation for Prior Years	725	
			Public Service	none	
				920	
FY 86	\$30,818	\$30,102		\$ 716**	2.3%
			Free and Reduced Rate Mail Reconciliation for Prior Years	750	
			Public Service	-34	
				none	
FY 98	\$60,072	\$60,005		\$ 67**	0.1%
			Free Mail for the Blind and Overseas Voting Material	57	
			Reconciliation for Prior Years	none	
			Net Impact of Revenue Forgone Reform Act of 1993	10	
			Public Service	none	

\* The figures for FY 71 are from the old Post Office Department prior to the creation of the Postal Service on July 1, 1971.

\*\* This figure does not include the appropriation for Post Office Department Transitional Costs, which, upon receipt, are remitted directly to the Department of Labor.

TABLE 3-5  
ANALYSIS OF EXPENSES  
(in percent)

	1998	1997
Personnel compensation	58.28%	59.47%
Personnel benefits	18.27	17.35
Transportation	7.06	7.05
Supplies and services	5.15	3.91
Interest on deferred liabilities	2.68	2.80
Depreciation and write-offs	2.71	2.99
Other	1.69	1.72
Rent and communications	1.64	1.52
Vehicle/building maintenance	1.00	0.96
Utilities	0.73	0.77
Advertising	0.51	0.47
Interest	0.28	0.54
POD workers' compensation costs	0.00	0.45
Total	<u>100.00%</u>	<u>100.00%</u>

#### b. Salary and Benefit Costs

**1. Increases.** Personnel compensation and benefits grew \$1.8 billion or 4.0 percent over 1997 due to contractual wage increases, a one percent growth in work hours, and workers' compensation expense that was greater than last year. This compares with growth of 2.7 percent in 1997 over 1996. In 1998, base salaries alone increased almost \$1 billion. Most employees covered by our collective bargaining agreements in 1998 received a 1.2 percent general wage increase, base salary longevity increases for eligible employees, and semi-annual cost of living adjustments of \$167 and \$208. In addition to receiving merit adjustments, lump-sum payments for individual performance, or both, most of our professional and management staff participated in the Postal Service's Economic Value Added (EVA) funded group incentive program.

Overall, the average annual base salary for a postal employee was \$35,670. Adding all personnel compensation expenses such as benefits, overtime, premiums, and lump-sum payments, the average compensation per total work year increased to \$50,117. In 1998, total personnel compensation expense of \$45.6 billion represented 76.5 percent of our total expenses.

**2. Retirement Costs.** We participate in a multi-employer retirement system. Essentially, our employees participate in one of the three retirement programs under the auspices of the U.S. government's Office of Personnel Management (OPM), based on the starting date of their employment.

Employees hired before January 1, 1984, are covered by the Civil Service Retirement and Disability Fund, which is part of the Civil Service Retirement System (CSRS). Approximately 38 percent of our employees are covered by this category.

Employees with prior government experience hired between January 1, 1984, and January 1, 1987, are covered by the Dual CSRS/Social Security System. Approximately 2 percent of our employees participate in the "Dual" system.

Employees hired on or after January 1, 1984, with the exception of Dual employees, are covered by the Federal Employees Retirement System (FERS). Other employees were given an option to transfer to FERS during periods in 1987 and 1988. In 1997, Congress approved a six month open season for workers covered by CSRS to switch to FERS. This open season runs from July 1998 to December 1998. While the final number of employees who choose to change systems was not available at the time this report was prepared, preliminary figures showed only three-tenths of 1 percent of our employees had chosen to change to FERS. Based on this preliminary figure, we anticipate that less than 1 percent of our employees will make the change. The financial impact of this open season will be minimal. FERS employees are 60 percent of our total.

Our year-end payment to OPM, including interest of \$1.6 billion, for our CSRS deferred retirement liability was \$3.3 billion. This amount does not include \$347 million we paid for retroactive COLAs and health benefits. We have no deferred retirement expense for FERS employees.

While all employees may participate in the Thrift Savings Plan (TSP) as administered by the Federal Retirement Thrift Investment Board, the rules for participation are different for each group of employees. We do not match CSRS or Dual contributions to the TSP, and contributions are limited to 5 percent. However, we are required to make a contribution of 1 percent of basic pay to the TSP for FERS employees. In addition, for FERS, we fully match employee contributions between 1 percent and 3 percent, and we match 50 percent of employee contributions between 3 and 5 percent.



We fund FERS, the Dual, and CSRS systems according to OPM stipulations. But since the estimated long-term liability created by increases to basic pay for CSRS employees exceeds the legal funding requirements of the Postal Service, we record a deferred retirement liability on our books.

We are liable for the estimated increases in the deferred retirement liability of the CSRS Fund that are attributable to Postal Service employee/management agreements that increase employees' basic pay.

The OPM determines the increase in the deferred retirement liability for active CSRS employees based on employee increases and actuarial data. We amortize this amount over 30 years, and we pay it in 30 equal annual installments including interest computed at 5 percent per year. The total increases in the annual expenses resulting from increases in basic annual salary are approximately \$52 million for 1998 and \$35 million for 1997.

The 1989 Omnibus Budget Reconciliation Act (OBRA) gave us responsibility for COLAs of postal retirees (and their survivors) who retired after September 30, 1986. The 1990 OBRA superseded the 1989 OBRA and expanded our responsibility for the expense of COLAs to include all our employees who retired after June 30, 1971 (and their survivors). This expense is apportioned for federal civilian service performed after June 30, 1971. We amortize and pay this liability and our future liability over 15 years, beginning in the year the liability is created. The annual expense for retiree COLAs, including interest, is approximately \$859 million for 1998 and \$817 million for 1997.

The 1993 OBRA required us to pay interest of \$1.041 billion on the retroactive assessments we were charged under the 1990 OBRA. This assessment represents 5 percent interest on the employer's portion of those retiree cost-of-living adjustments (COLAs) and health benefits that the Postal Service would have paid had the provisions of the 1990 OBRA been in effect from July 1, 1971, through September 30, 1986. We paid this interest in three annual installments. We made the first two payments of \$347 million on September 30, 1996 and 1997. The final payment of \$347 million was made on September 30, 1998.

TABLE 3-6  
RETIREMENT COSTS  
(dollars in millions)

	1998	1997
CSRS	\$ 849	\$ 870
FERS	1,640	1,590
FERS: Thrift Savings Plan	608	552
Dual CSRS/Social Security	36	36
Social Security	1,241	1,162
Amortization of deferred cost:		
CSRS	1,142	1,064
Annuitant COLAs	569	552
Interest expense on deferred liabilities	1,597	1,597
Imputed interest on OBRAs	16	32
Total	<u>\$7,698</u>	<u>\$7,455</u>

COLA = cost-of-living adjustment

CSRS = Civil Service Retirement System

FERS = Federal Employees' Retirement System

**3. Workers' Compensation Costs.** Under federal law, when postal employees are injured on the job they are entitled to workers' compensation. Since we do not maintain workers' compensation insurance, we pay workers' compensation out of our own funds. The Office of Workers' Compensation Program (OWCP) of the Department of Labor (DOL) administers our workers' compensation program for us.

We record a liability for the present value of all expected future workers' compensation payments. Currently, the average liability per employee claim for lost wages is almost \$165,500 and the average liability per employee claim for medical bills is about \$9,400. At the end of 1998, we estimate our total liability for future workers' compensation costs at \$5,287 million excluding Post Office Department (POD) liability. At the end of 1997, this liability was \$5,092 million. In 1998, we recorded \$760 million in workers' compensation expense, compared to the \$206 million we recorded in 1997.

Please refer to Table 3-7 for a history of accrued workers' compensation expenses and annual cash payments.

TABLE 3.7  
 POSTAL SERVICE WORKERS' COMPENSATION EXPENSE AND CASH PAYMENTS  
*(dollars in millions)*

Fiscal Year	Estimated Annual Increase/Decrease in Active Claims*	Administrative Charge (DOL)	Total Annual Expense*	Payments to DOL for Postal Service Active Claims and Admin. Charges**
1972	\$ 86	\$—	\$ 86	\$ —
1973	79	—	79	—
1974	94	—	94	29***
1975	238	3	241	35
1976	350	4	354	58
TQ	81	—	81	—
1977	624	5	629	83
1978	505	6	511	131
1979	746	9	755	148
1980	490	8	498	161
1981	466	9	475	174
1982	278	8	286	190
1983	-31	7	-24	188
1984	158	10	168	187
1985	313	11	324	194
1986	495	9	504	211
1987	307	9	316	236
1988	510	10	520	245
1989	680	11	691	271
1990	753	15	768	671****
1991	174	9	183	397
1992	1,071	14	1,085	454
1993	928	17	945	487
1994	311	16	327	501
1995	860	17	877	520
1996	718	19	737	531
1997	187	19	206	538
1998	\$ 739	\$21	\$ 760	\$601

\* All years prior to FY 93 include nominal expenses for OWCP health benefits.

\*\* Payments in this table are on cash basis by fiscal year in which the payments were made. Listed payments include payments for active Postal Service claims and for associated DOL administrative charges. Payments exclude all payments for Post Office Department claimants.

\*\*\* Payment was for FY 73 and FY 74 active claims.

\*\*\*\* Payment comprises FY 89 and 90 active claims and FY 90 administrative charge. Separate payments were made in October of 1989 (FY 89 active claims and FY 90 administrative charge) and September of 1990 (FY 90 active claims and FY 1991 administrative charge).

## **B. Banking**

Postal Service Corporate Treasury manages one of the world's largest cash collection and concentration systems through four channels: field bank accounts for 39,000 retail locations; credit and debit cards through a single processor; an integrated lockbox network; and direct electronic payments from major customers. In addition to having banks as customers, the Postal Service is one of the largest customers for commercial banks. Daily receipts of \$300 million to \$500 million are deposited into bank accounts at fewer than 100 commercial banks. Commercial bank account deposits that exceed the Federal Deposit Insurance Corporation (FDIC) insured limit of \$100,000 are collateralized by government securities, which are held in safekeeping at Federal Reserve Banks and branches.

During 1998, our cash receipts totaled approximately \$87 billion, not including financing. Once again, we set a record for the amount we received in one day. On January 21, 1998, we took in over \$543 million, and we collected over \$500 million on seven other occasions. That's a lot of money to manage effectively, but managing it well can produce significant benefits for us and ultimately, our customers. During the past six years we have conducted a very aggressive liquidity management program. We designed this program to ensure that we have enough cash and borrowing ability to meet our daily needs and to invest in capital improvements, while we minimize our cash on hand and debt. Our capital investments are designed to increase our productivity and efficiency so we can lower our costs while providing better service.

Minimizing cash and debt to control interest expense and risk has been a challenge. In 1992, the Postal Service had \$9.9 billion in debt outstanding paid \$765 million in interest expense on our debt, while cash and securities in the Postal Service Fund averaged \$6 billion. By 1998, we reduced the debt outstanding to \$6.4 billion and the average cash balance to \$1.8 billion. We have used our liquidity management program to further reduce our cash on hand to an average of \$287 million during 1998. On September 30, 1998, we had approximately \$395 million cash and cash equivalents on hand. That is not a lot of cash considering that our payroll every two weeks is typically over \$1.6 billion.

## **C. Financing and Investments**

Over the past few years we have worked closely with our lender to put in place the tools we need to manage our cash more effectively. Successful debt management should be viewed as an ongoing, multiyear journey rather than a final destination. Major milestones in this journey have included obtaining call options (1992), making decisions to minimize cash and debt (1993), negotiating floating rate debt that can be repaid quarterly without penalty (1994), obtaining revolving credit lines of \$1 billion (1996), tripling our credit line facilities to \$3 billion (1997), and obtaining notes that we can borrow against with short notice (1998). These new financing tools give us unprecedented flexibility in addition to reducing the time it takes to borrow to only two days. In the past, it often took more than a month to complete the same financing. With these tools finally in place last year, we were able to use them to manage our liquidity to achieve the best results.

Entering the fiscal year, we had restructured our debt portfolio so that \$5.1 billion of our \$5.9 billion in outstanding debt could be repaid without penalty in 1998. This restructuring allowed us to manage our daily liquidity aggressively, resulting in a near zero ending cash balance on 117 business days compared with 4 days in 1997 and an average cash balance of \$287 million for the year compared with an average of \$1.8 billion in 1997.

Over the years, we reduced cash and debt by focusing on cash flow forecasting and by increasing our ability to adjust debt. In late 1992, all of our \$9.9 billion debt was fixed-rate and non-callable. On September 30, 1998, only 45 percent of our \$6.4 billion debt was fixed-rate and non-callable, 9 percent was floating rate, and the remaining debt was against short-term credit lines. An important part of our liquidity management program is the short-term credit lines we negotiated in 1996. With these lines of credit we can reduce the cash we keep on hand to meet our liquidity needs. The Overnight Revolving Credit Facility allows us to borrow up to \$300 million on the same day we request it. The Short-Term Revolving Credit Facility allows us to borrow up to \$2.7 billion with two days' notification.

Using these lines of credit, we saved paying substantial interest on two long-term notes. The first note for \$1.5 billion carried an interest rate of 7.367 percent, and the second note for \$1.0 billion carried an interest rate of 7.615 percent. These notes were the last remaining from the November 1992 debt restructuring. On December 1, 1997, we refinanced both notes on the first opportunity to call them using a combination of our overnight revolving credit facility, which had an interest rate of 5.52 percent, and our short-term revolving credit facility and new floating rate note, each of which had a 5.34 percent interest rate.

Successful debt management should include a strategic balance of both long- and short-term considerations. In 1998 we took advantage of declining long-term interest rates to lock in some very attractive financing that will serve to hold down interest expense in future years. In January 1998, we issued \$1 billion of long-term debt at an average interest rate of 5.77 percent, our first long-term borrowing in over two years.

In July, we issued \$250 million more of long-term debt at an average of 5.62 percent, and in August we added an additional \$500 million at 5.53 percent. Finally, in September we added \$400 million at an average rate of 4.95 percent—the lowest long-term borrowing rate in Postal Service history and our first borrowing of any kind below 5 percent.

For 1998, our interest expense on borrowings was \$167 million, which is a decrease of \$140 million or 46 percent from 1997, and a \$434 million decrease from our 1994 financing expense of \$601 million. That is a 72 percent decrease in financing expenses in just four years. Since 1994, we have reduced debt 29 percent, from \$9 billion to \$6.4 billion on September 30, 1998. The weighted average rate of interest on long-term debt decreased from 7.35 percent in 1997 to 5.89 percent in 1998. Meanwhile, the average years to maturity for the debt expanded to 13.45 years from 6.76 years at the end of 1997. However, as we cautioned last year, our cash flow from operating activities declined during 1998 while our capital cash outlays remained in excess of \$3 billion, resulting in an increase of \$549 million in our outstanding debt at the end of 1998. Yet while our outstanding debt increased, our interest expenses decreased due to a combination of reducing the interest rate on our debt and managing our debt to lower levels throughout the year.

While we anticipate that our operating activities in 1999 will continue to provide us with sufficient cash flow to cover expected obligations, they should also result in an increase in our debt outstanding similar to the increase in 1998.

Our liquidity management program has been very successful and has earned national recognition. In fact, *Treasury & Risk Management* Magazine awarded us their 1998 Gold Alexander Hamilton Award for Cash Management and the Bronze Award for Excellence in Corporate Finance.

The Postal Service received the award in Corporate Finance for our liquidity management program of improving the balance sheet and income statement by reducing cash, debt, interest expense, and risk. We were able to change the environment



in which we operated in order to achieve the flexibility needed to manage our balance sheet. We were able to make changes both internally through increased awareness of debt management and emphasis of strong financial performance and externally through negotiated solutions to our business needs. The successful results of our program were discussed in the preceding section.

We received the Gold Alexander Hamilton Award for Cash Management for implementing innovative solutions to managing electronic payments from customers. To meet customer demand for more convenient payment options, we completed one of the largest roll-outs of debit/credit cards acceptance in history involving four major credit cards and all on-line debit card networks. This program included training 100,000 personnel and installing over 60,000 terminals at 33,000 locations. The Postal Service is also promoting the use of electronic payments from our business customers through the use of Automated Clearing House transfers and Fed Wire payments. Designing, implementing, and managing such large and complex electronic payment systems was a daunting challenge. To manage this task, we created a new group within Corporate Treasury in 1997. We also created a cross-functional team that first pulled together the diverse postal management units involved in the project and then worked together to develop a set of common cohesive management strategies and policies for electronic payment technologies that made the system run smoothly.

In addition to meeting our customers' needs with an award winning system, electronic payments save us money. Our studies show that processing electronic payments is much less expensive than handling cash or checks. We expanded the dollar amount of the payments we receive electronically from 11 percent of total cash receipts in 1997 to 15 percent during 1998. And we continue to pursue new payment options for all customers.

During the past year we continued our program to streamline and strengthen our bank relationships. By consolidating and competitively bidding our accounts we not only obtain better service and rates from banks, but we also improve financial controls, minimize our costs, and leverage our position as a major corporate customer.

Through September 1998 we signed 29 contracts providing banking services for post offices in 42 states with an estimated two-year savings of \$20 to \$25 million. In October 1998 we signed contracts covering an additional three states and plan to complete the process. Since we began our relationship banking program, we have reduced the number of banks with which we do business from over 5,000 to fewer than 100, of which 27 are major relationship banks which handle most of our business. We select banks that offer experience, innovation, and superior technology and deal with us as they do with their other large business customers.

In 1998, we continued our Minority Bank Certificate of Deposit Program with 69 participants. We began this program in 1996 to demonstrate our support for both the U.S. Treasury's Minority Bank Deposit Program and the minority bank community. Minority banks must meet select qualification criteria to participate in our program, which allows us to place \$100,000 certificates of deposit in qualified institutions. We will continue to monitor eligibility standards for financial control purposes and to increase enrollment in the program.

During the year we engineered a seamless shift of our payroll disbursement account from the U.S. Treasury to four commercial banks. This major undertaking involved extensive coordination with many internal functional areas as well as external coordination with our relationship banks. The change has given us better financial controls, improved cash management and cost savings. Our employees also benefit from reduced inquiry time and faster processing of lost checks. Approximately 375,000 postal employee paychecks are drawn on these banks. This change did not affect the remaining 400,000 postal employees who have direct deposit of their paychecks.

## D. Analysis of Balance Sheet

On September 30, 1998, the balance sheet of the Postal Service (see Table 3-8) reflected total assets of \$54.5 billion, comprising \$1.5 billion in current assets, \$20.8 billion in property and equipment, \$31.8 billion in deferred retirement costs, and \$0.4 billion in other assets. Total liabilities at the end of the period were \$55.4 billion, with retirement benefits payable (\$31.8 billion) comprising 54 percent of this total. On September 30, 1998, the Postal Service had a net capital deficiency of \$810 million.

TABLE 3-8  
HIGHLIGHTS OF FINANCIAL CONDITION  
(dollars in millions)

Current assets	\$ 1,528
Property and equipment	20,792
Deferred retirement and other	32,223
Total assets	<u>\$54,543</u>
Current liabilities	\$14,913
Long-term debt, less current portion	2,788
Retirement benefits payable	30,138
Other liabilities	7,514
Total liabilities	<u>55,353</u>
Capital deficiency	(810)
Total liabilities and net capital deficiency	<u>\$54,543</u>
Total borrowing authority	\$15,000
Debt outstanding (current and long-term)	\$ 6,421
Undrawn borrowing money	\$ 8,579

## E. Capital Investments

### 1 FISCAL YEAR 1998 DEVELOPMENTS

#### a. General

During 1998, the Board of Governors approved a total of \$2.3 billion for 27 major capital investment projects, consisting of 11 facility projects, 14 equipment projects, and 2 vehicle projects. We made commitments for the majority of these projects. And we expect to continue this high level of planned commitments for the next several years.

Almost 50 percent of our 1998 total commitments, \$1.8 billion, was attributable to building or improving facilities. The facility investments mainly satisfy capacity requirements because of the growth in population, mail volume, and delivery points. There is also an inventory of aging facilities that requires repair or replacement. Properly maintaining our existing assets extends their useful lives, provides a business-friendly environment for our customers, and enhances working conditions for our employees.

We committed \$1.2 billion for such labor-saving mail processing equipment as Advanced Facer Canceler Systems and Flat Sorting Machines 1000 Barcode Readers.

Vehicle commitments of \$294 million continued to sustain our five-year vehicle strategic plan to deploy trailers and delivery and collection vehicles. Retail commitments consisted mostly of service-related equipment to support our retail infrastructure.

TABLE 3-9  
FISCAL YEAR 1998  
CAPITAL COMMITMENTS  
(dollars in millions)

Line Item	Actual	Plan	% Change
Facilities	\$1,821	\$1,964	-7.3
Automation and mechanization equipment	1,204	1,733	-30.5
Vehicles	294	298	-1.3
Retail equipment	80	381	-79.0
Postal support equipment	549	1,216	-54.9
Total	<u>\$3,948</u>	<u>\$5,592</u>	-29.4

## b. Financing

Capital assets were primarily financed internally through cash flows from operating activities. The balance was financed by issuing debt. The net cash provided by operating activities for the fiscal year was \$2.4 billion, and the net purchases of property and equipment were \$3.1 billion.

## 2 FACILITIES

### a. Small Construction Projects

Small construction projects are defined as projects costing less than \$10 million. During Fiscal Year 1998, 257 new construction, major renovations, and expansions and 176 building purchase projects were completed.

As of end of the fiscal year, 1,145 projects classified as small construction were ongoing. The estimated costs of these projects total \$1.98 billion.

### b. Major Facility Projects Completed

Major facility projects are defined as projects costing in excess of \$10 million. The following major facilities were completed in Fiscal Year 1998:

Completion	Facility Cost	Completion Date
Golden, CO— MPO/DDC	\$9.9 million	Aug 1998
Minneapolis, MN— ISC/ASC	\$53.8 million	July 1998
New York, NY— Church Street	\$40.8 million	Dec 1997

### c. Major Facility Projects Under Way

At the end of Fiscal Year 1998, the following major projects had been approved and were in progress:

Project	Estimated Facility Cost (\$ in millions)	Scheduled Completion Date
Atlanta, GA—AMC	\$36.3 million	Jan 1999
Boise, ID	\$32.9 million	April 1999
Jacksonville, FL— Bulk Mail Center Expansion	\$81.1 million	March 1999
Kansas City, KS— P&DC Building Purchase & Renov	\$98.3 million	July 1999
New York, NY— Church Street Station (Phase 2)	\$91.0 million	June 2001
Northeast Metro, MI— P&DC	\$86.0 million	To be determined
Phoenix, AZ—DDCs	\$16.7 million	April 1999
Sioux Falls, SD— P&DF	\$17.4 million	June 1999
Spokane, WA—P&DC	\$40.2 million	Sept 1999
Tulsa, OK—P&DC	\$39.4 million	Sept 1999

AMC=Air Mail Center

MPO/DDC=Main Post Office/Delivery Distribution Center

ISC/ASC=Information Service Center/Accounting Service Center

## 3 EQUIPMENT AND VEHICLE PURCHASES

Commitments were made during FY 98 for the following major equipment and vehicle programs (dollars in millions):

Type	Amount
Delivery Barcode Sorter/ Output Subsystem Phase II	\$ 45.0
Flat Sorting Machines 1000	25.7
Small Parcel Bundle Sorter Feed System	32.6
Tray Management Systems	40.4
Field Material Handling System	91.0
Carrier Route Vans	\$213.0

#### 4 FUTURE DEVELOPMENTS

##### a. Capital Investment Plan for 1999

At its September 1998 meeting, the Board of Governors approved a 1999 Capital Investment Plan of \$4.4 billion. The Capital Investment Plan is a five-year investment cycle. The first year represents the budget year while the remaining four years represent a plan that will be reviewed by senior executives and the Capital Strategic Planning Committee. Normally, the Board of Governors would approve a five year plan, but this year we recommended keeping the current \$17 billion plan for five years and adjusting out year allocations. Only the Capital Investment Plan for 1999 was approved by the Board of Governors. To minimize borrowing, we will use internally generated funds as much as possible.

Projects for 1999 include such carryover projects from 1998 as Delivery Confirmation, asbestos removal, and projects with special funding. These projects are designed to meet the demands of the growth in our workload, repairing and replacing our aging infrastructure, and making use of the latest technology.

The facility portion is the single largest portion at \$1.7 billion. For field projects less than \$5 million each, we have planned a total of \$1 billion. This includes funding for over 300 projects for expansion and new construction of small facilities and funding for over 1,600 repair and alteration projects. There is \$417 million projected for commitments for 25 major processing facilities. Funds have been included to modernize the 25-year-old facility housing Headquarters. Major systems are in need of upgrading or replacement such as lighting, air handling, electrical, and communications. We will continue our Bulk Mail Center (BMC) Expansion program that allows the BMC network to handle in an efficient and more timely manner future growth in the volume of pallets and large parcels.

At \$1.5 billion the equipment budget is the second largest portion of planned capital spending. This budget includes \$899 million for material handling projects that will automate the transportation and preparation of mail trays; \$307 million to upgrade currently installed Delivery Barcode Sorters; and \$221 million to improve the Small Parcel Bundle Sorter Feed System, install the new Smart Delivery Unit, and upgrade the existing Flat Sorting Machines 1000 series with the Flat Sorting Machine 1000 Optical Character Reader.

We also plan to invest \$518 million in such infrastructure projects as centralized telecommunications, automatic data processing, and support for new computer applications.

We will commit \$509 million to such Special Projects as Stage 2 of the deployment of our Point of Service or POS ONE system, construction of our International Service Centers to improve service for international and military mail, expanding our delivery confirmation capabilities, and expanding our Corporate Call Management system.

Finally, we will spend \$292 million to replace and upgrade our vehicle fleet, as well as \$70 million to improve our retail services with new vending machines and customer support services.

All of the projects in our 1999 Capital Investment Plan are designed to promote one or more of our three basic goals: improve service to our customers, produce an economic return through cost savings, and improve working conditions and infrastructure.

TABLE 3-10  
CAPITAL INVESTMENT PLAN  
FY 1999-2000  
FY 1999 Approved Planned Commitments  
FY 2000 Proposed Commitments  
(dollars in millions)

	1999	2000
Facilities	\$1,652	\$5,821
Automation and mechanization equipment	1,489	6,712
Vehicles	292	592
Retail equipment	368	1,071
Postal support equipment	641	2,801
Total capital commitments	<u>\$4,442</u>	<u>\$4,000</u>



# CHAPTER FOUR

## Preliminary Annual Performance Plan FY 2000

### A. Letter from the Postmaster General

To the President of the United States, the United States Congress, the Members of the Postal Community, and the American people:

Throughout the more than 200-year history of our postal system, we have faced and met significant, complex challenges. We have bound a nation together as it expanded from one coast to another, across an entire continent. We have mastered the logistics of keeping our fighting forces in touch with their families and loved ones, even as they risked their lives defending our freedoms. And we have built and maintained a delivery network that has become the backbone of the greatest economy the world has known. The challenges we face in the years ahead are just as great, and require actions and initiatives as bold as any the Postal Service has ever achieved.

This Annual Performance Plan for Fiscal Year 2000—the second that we have published under the mandate of the Government Performance and Results Act of 1993—reflects the effort we have undertaken this year to refine our strategic direction to better meet the challenges posed by our marketplace, by technological change, by competitive pressures and by legislative reform. The goals, strategies, indicators and targets for Fiscal Year 2000 set forth in this document steer us onto a path that not only supports our historic mission, but also begins to prepare us to become a high-performing, operationally excellent supplier of choice for 21st century postal services in a competitive environment. That is the role I believe we must play in the years ahead.

This Annual Performance Plan is linked closely with our Five-Year Strategic Plan, a “living” document continually under review and benefiting from input from our employees, our customers and our stakeholders. We must constantly remind ourselves that no one is standing still, and neither can we. The Annual Performance Plan for Fiscal Year 2000 demonstrates our determination to move forward, and I am proud to share it with you.

William J. Henderson  
Postmaster General

### B. Executive Summary

#### 1 INTRODUCTION

On September 30, 1997, the Postal Service filed its first Five-Year Strategic Plan required under the 1993 Government Performance and Results Act (GPRA). The next steps in the GPRA planning process were the submission of the Preliminary FY 1999 Annual Performance Plan in February 1998 and the Final FY 1999 Annual Performance Plan in September 1998.

The Postal Service sponsored an external Baldrige-like assessment of its management system in the spring and summer of 1998 and conducted a formal management review of its future strategic direction in the fall of 1998. As a result of these continuous improvement efforts, the strategic goals and performance goals presented in the Five-Year Strategic Plan have been updated. This Preliminary FY 2000 Performance Plan reflects these revisions as well as adjustments to the set of performance metrics and targets. However, this Preliminary Plan is provisional until resources have been allocated and the Board of Governors makes

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its final decisions on these allocations later this year. The Final FY 2000 Performance Plan will be published on September 30, 1999, after adoption by the Board of Governors.

## 2 ORGANIZATION AND LINKAGE WITH THE FIVE-YEAR PLAN

This Annual Performance Plan is operationally linked to the Five-Year Strategic Plan through the *CustomerPerfect!* management system, which has four phases—Establish, Deploy, Implement, and Review.<sup>1</sup> This organization-wide system sets up an annual management cycle that assesses current strategic goals, strategies, indicators and targets, and refines and revises them based on results-focused data. The updated goals and targets are first communicated throughout the Postal Service on a provisional basis. They are finalized during the deployment-phase budget process, when the cost effectiveness of specific program strategies is considered.

The goals and targets of the Annual Performance Plan are aligned with Postal Service program activities supporting its unique statutory mission.

## 3 GOALS, INDICATORS AND TARGETS FOR FY 2000

The specific corporate goals, performance goals, indicators, and targets for FY 2000 presented below were developed during a planning process that began in September 1998 and will conclude in September 1999. They fall into three categories: Voice of the Customer, Voice of the Employee and Voice of the Business.

### a. Voice of the Customer

The Voice of the Customer corporate goal is to earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices. The performance goals, indicators and targets are to:

- Provide timely delivery by achieving overnight First-Class Mail on-time delivery performance of at least 93%; by increasing two- and three-day First-Class Mail on-time delivery performance to 90%; by completing development of a First-Class remittance mail on-time performance indicator and setting a performance target; by achieving targeted Priority Mail on-time performance; by achieving 97% on-time performance for Ad Mail delivered

within a requested sales window; by achieving targeted on-time performance for destination-entered ground packages; and by developing on-time performance indicators and baselines for Periodicals and International Mail.

- Provide consistent service as measured and validated by recently developed Customer Service Measurement system indicators of delivery within 30 minutes of the scheduled time.

- Provide accurate service as measured and validated by recently developed Customer Service Measurement system indicators of complaints or claims for misdelivery, damage, or loss.

- Ensure that the service is easy to use by improving performance against Ease-of-Use Indices, which use customer satisfaction surveys to measure how easy it is for customers to do business with the Postal Service. The goal for the Composite Ease of Use Index is an increase from the FY 1999 Quarter 1 metric of 656 to 710.

- Develop improved customer goal indicators through exploration of customer needs market segmentation as an alternative to product segmentation; the use of Customer Value Analysis to develop "best value" criteria; and the use of customer loyalty measures for competitive products.

A variety of customer goal indicators were developed in FY 1999 to support achievement of the 2000 improvement targets. These include new indicators for Priority Mail, Ad Mail, and ground packages. For FY 2000, new indicators under development include on-time performance for remittance mail, International Mail and Periodicals.

Several of the measures discussed here—ease of use for retail, for example, or performance of the basic First-Class Mail product—are related to the fulfillment of the Postal Service mission to provide universal service and to bind the nation together through the efficient delivery of postal services. The Postal Service will continue its ongoing review of definitions of universal service developed for other industries and postal administrations, and continue consulting with stakeholders, policy makers, regulators, and experts to define terms and analytical methods that may be appropriate in the context of future postal reform discussions.

<sup>1</sup> See Appendix A of the Fiscal Year 1999 Annual Performance Plan for a more complete description of the *CustomerPerfect!* system.

## **b. Voice of the Employee**

The Voice of the Employee corporate goal is to foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training, and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success. The performance goals, indicators and targets are to:

- Improve workplace relations by building leadership skills and behaviors. This will involve making the REDRESS<sup>2</sup> process available to all Performance Cluster<sup>3</sup> employees; setting a contract compliance target based on the percentage of grievances denied by an arbitrator (after completion of labor negotiations); and responding to all employee suggestions within six months.

- Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations for their positions by achieving a 90% score on the Business Information Survey; by providing at least four hours of interpersonal skills training for all employees; and by improving employee proficiency indices by 10% over their FY 1999 values.

- Improve employee safety, security, and well-being by developing safety indicators to match OSHA requirements; by keeping lost workdays due to injury per 200,000 work hours below 1.96; by keeping total accidents per 200,000 work hours below 11.36; and by keeping motor vehicle accidents per million miles driven below 10.9.

- Improve understanding of employee issues and concerns through a Voice of the Employee survey; by monitoring the percentage of required labor/management meetings held; by developing an index, a performance baseline, and improvement targets for the workplace environment; and by developing additional systems for employee feedback.

- Ensure an inclusive and fair environment with opportunities for all employees by developing indicators, performance baselines and targets for representation of all groups in details, special assignments and succession plans; and for activities supporting the affirmative employment plan.

New indicators used for the first time in FY 1999 to support VOE proficiency improvement targets include rural delivery operations,

sales operations and other plant operations. During FY 2000, proficiency indicators will be developed for city carriers, computerized forwarding system employees and platform operations employees. In addition, new indicators for leadership behaviors, leadership training, use of employee suggestions, monetary and non-monetary recognition, OSHA safety requirements, facility security, identification and resolution of hostile environments, and diversity development will be developed in FY 2000.

## **c. Voice of the Business**

The Voice of the Business corporate goal is to generate financial performance to assure the commercial viability of the Postal Service as a service provider in a changing competitive marketplace, and to generate cash flow to finance high-yield investments for the future while providing competitively priced products and services. The performance goals, indicators and targets are to:

- Improve overall business performance by generating positive indexed Economic Value Added (EVA); by meeting the \$4 billion capital commitment target; and by achieving an overall net income of \$150 million.

- Control costs by improving Total Factor Productivity and labor productivity by 0.5% and 1.0%, respectively.

- Keep price increases below the rate of inflation by maintaining current rates.

- Restore original equity by achieving an average net income of at least \$377 million over the current rate cycle.

In FY 1999, the Postal Service developed new indicators of quarterly cost and revenue by product, using data from the Cost and Revenue Analysis System. These indicators will be tested and refined during the remainder of FY 1999 and ready for use in FY 2000. In addition, development of a "labor intensity" index will be explored during FY 2000.

<sup>2</sup> The REDRESS (Resolve Employment Disputes Reach Equitable Solutions Swiftly) program, described on page 101, is an alternative to the traditional EEO process for dispute resolution.

<sup>3</sup> A Performance Cluster is one of 85 geographically based, midlevel organizational units.

#### 4 CUSTOMERPERFECT!: MANAGING THE POSTAL SERVICE

*CustomerPerfect!*, the Postal Service's management system, employs four phases: Establish, in which objectives, goals, and subgoals are set; Deploy, in which resources are allocated and plans developed; Implement, when plans and resources are put into action; and Review, a reality check on how well the goals, subgoals, and targets were met. Through this process, the organization continually reviews the performance of the management system and identifies opportunities for improvement.

In the spring and summer of 1998, a formal Baldrige-like assessment of the *CustomerPerfect!* management system was conducted by external examiners. Five general areas for improvement opportunities were identified: people, human resource strategy, process management, comparative data, and alignment of direction. Thirty-nine projects in these five areas have been identified, and for each project, teams have been assigned to develop multi-year project plans to implement the recommended process improvements.

To improve the Establish process, improved data from marketing plans, a Business Environmental Assessment, a Voice of the Employee survey, and the Baldrige assessment were used in setting improvement targets.

To improve the Deploy process, the guidelines for identifying resources needed to achieve targets were updated and standardized, and a more systematic effort to increase the level of involvement of field managers was employed.

To improve the Implement process, several new programs were added to the Postal Service's formal program management effort. Also, the implementation of process management throughout the Postal Service is being enhanced during FY 1999 through the development of an corporate enterprise map. Efforts to improve communications of the strategic goals and performance targets to employees throughout the organization are continuing.

To improve the Review process, the business review process is being further refined to reinforce the renewed strategic direction created during the Establish process. In addition to maintaining a focus on achieving the targets included in the FY 1999 Annual Performance Plan, reviews at all levels deal with the key programs and change initiatives, such as the plans to respond to the Baldrige assessment and the major investment programs that are critical to the continued success of the Postal Service.

#### 5 RESOURCES AND PROGRAMS: ACHIEVING THE GOALS

The Postal Service's five-year (FY 1998-2002) capital investment plan provides a foundation that supports the Five-Year Strategic Plan. The FY 2000 capital commitment plan is \$4 billion. The facilities commitment plan for FY 2000 is \$1.4 billion, representing about 35% of the organization's total capital investment. Also in FY 2000, \$1.9 billion in automation and mechanization investments will be made to enhance previously deployed technologies and to expand the technology base available to support postal operations. Capital spending for vehicles is \$28 million, which will be used to replace the aging fleet with modern, fuel-efficient models. Commitments of \$128 million are planned for retail equipment, which includes self-service vending equipment. Postal support equipment investment of \$480 million represents 12 percent of the total FY 2000 capital plan.

#### 6 VERIFICATION AND VALIDATION: ENSURING ACCURACY

A variety of data and resources are available to aid in measuring success in meeting the various performance goals. Many of the data systems utilized have a series of internal controls embedded within their procedures to safeguard the integrity of the results. Also, the General Accounting Office (GAO), the Office of the Inspector General (OIG), the Inspection Service and independent certified public accounting firms retained by the Postal Service conduct ongoing reviews of Postal Service data and render periodic reports on their findings and recommendations.

Specific Postal Service systems and processes are planned for verification and validation of the data used to track each *CustomerPerfect!* performance goal.

#### 7 CHALLENGES AND EXTERNAL FACTORS: THE PERMANENCE OF CHANGE

Changes in customer requirements, the evolution of new technologies, opportunities for growth in labor/management relationships, and ongoing efforts to structure legislative reform are continuing challenges which seem likely to affect the ability of the Postal Service to achieve its goals for FY 2000. In the coming fiscal year, customers will continue to press the Postal Service to accelerate its application of technology to enhance the processing and delivery of their mail. Concurrently, customers will also continue to demand aggressive management of costs. In the realm of technology, as well,



change will be a constant. Electronic alternatives, from e-mail to applications as yet unannounced, will continue to affect mail volumes.

The 1998 labor negotiations and their aftermath mark the starting point of the path that the Postal Service and its workforce will pursue in the next few years. The journey seeks both employee and customer satisfaction, but those goals will not be reached without positive change. Finally, there is growing agreement regarding the need for change in the structure established by the Postal Reorganization Act almost 30 years ago. The Postal Service is still charged with providing a fundamental, universal public service to the nation at fair and affordable prices. But in order to fulfill that role in an increasingly complex and competitive environment, the Postal Service needs the ability to price its offerings in response to rapidly changing market conditions and to offer products and services with characteristics that compare favorably with changing alternatives. The course of legislative reform that will shape the U.S. Postal Service for the 21st century remains a work in progress.

In sum, this Annual Performance Plan for FY 2000 sets goals, indicators and targets that continue the transformation of the Postal Service into a proactive, mission-driven, customer-focused organization that is responsive to the requirements of the American public, the challenges of a rapidly changing marketplace, and the needs of employees. This Plan thus provides a base from which the Postal Service will continue to adapt to changing customer needs and new competitive technologies.

## C. Introduction

On September 30, 1997, the United States Postal Service filed its first Five-Year Strategic Plan required under the 1993 Government Performance and Results Act (GPRA). The Strategic Plan, which covers the period FY 1998-2002, describes the Postal Service's corporate and performance goals,<sup>4</sup>

strategies, targets and indicators that the organization will use to achieve its mission and remain viable into the 21st century by effectively managing its costs, by responding to customer needs and demands in ways that deliver unique value and by enhancing organizational effectiveness. Following the Preliminary and Final Annual Performance Plans for FY 1999 that were published in February and September 1998, respectively, this Preliminary FY 2000 Annual Performance Plan is the next step in the GPRA planning process.

The underlying foundation of this Performance Plan is the mission of the Postal Service, as stated in the opening paragraph of the 1970 Postal Reorganization Act: "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities."

Two hundred years after its creation, the nation's Postal Service is seen by the American public and its representatives as a core government function. The goals, strategies, targets and indicators in this plan enhance the speed, reliability and efficiency of mail's delivery. In so doing, they support the Postal Service's mission and role as a government service providing universal postal service to the country.

A few years ago, the Postal Service reexamined its historic mission and drafted an updated Statement of Purpose, which was published as part of its Five-Year Strategic Plan, submitted to the Congress and the President on September 30, 1997. That Statement of Purpose reads: "To provide every household and business across the United States with the ability to communicate and conduct business with each other and the world through prompt, reliable, secure and economical services for the collection, transmission and delivery of messages and merchandise." Today, the role of the Postal Service in providing access to all Americans and uniform rates that connect all delivery points is more important than ever, even as an ever-increasing variety of new electronic services fragments the communications marketplace.

<sup>4</sup> In Postal Service terminology, **goals** are broad statements of direction—for example, "Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices." **Subgoals** (performance goals) narrow the focus to specific performance areas within each goal—for instance, "Provide timely delivery." **Indicators** are measures of performance for the subgoals, such as "percent on-time, overnight delivery of First-Class Mail as measured by the External First-Class Measurement System, EXFC." **Targets** are the specific levels of performance to be achieved on the indicator—for example, "93 percent on time"—and are set each year after extensive consultation that takes place in the Deploy phase of the management cycle.

Examination and review of the evolving role of the Postal Service has continued since the publication of the Five-Year Strategic Plan. During the fall of 1998, as part of an effort to define a future vision and strategic direction for the Postal Service, senior management undertook a comprehensive review of the current statutory responsibilities and regulatory environment of the Postal Service and the impacts of the following developments:

- Changes in the regulatory environment faced by other postal administrations and other regulated industries
- Emerging complementary and substitute technologies
- Changing customer expectations
- Changes in employee relationships and expectations
- Changes in the competitive environment

As a result of this review, the following vision statement for the Postal Service in the 21st century was drafted:

Within the decade ahead, the Postal Service must be transformed into a high-performing enterprise, able to compete with agile competitors, to be responsive to more sophisticated customer demands, and to establish goals aligned with the vision of becoming the service customers choose to use, rather than have to use. All employees must have appropriate incentives and tools, not only to service their customers, but to meet or exceed competitors' offerings. We must, in short, develop an operationally excellent, financially sound, performance-based culture and mindset.

Given our expectations and beliefs about the future marketplace, it is imperative that the Postal Service achieve a state of operational excellence and competitive performance so high that a partial loss of the letter and mailbox monopolies would not make a difference to our ability to serve customers and to our success.

This new statement of future vision and strategic direction led in turn to amendments of the Postal Service's three corporate goal statements, which are incorporated in this Preliminary Annual Performance Plan for FY 2000. The amendments reflect the organization's decision to strengthen its goal statements relative to its increasingly challenging postal marketplace, its need to improve its workplace environment and how it receives employee input, and its overall business requirements for success.

The Voice of the Employee goal has been revised because the organization—after reviewing the goal and its supporting subgoals, indicators and targets—concluded that the original statement was perceived to reflect the voice of management more than the voice of all Postal Service employees. The new Voice of the Employee goal statement

elevates the quality of the overall workplace environment from a subgoal category to a corporate goal, and emphasizes that the end result should achieve organizational and individual success.

The Voice of the Customer goal has been changed to strengthen the message that customers have choices, and that the Postal Service—in order to meet their requirements and get their business—must offer products and services competitive with the best available globally.

Finally, the Voice of the Business goal has been amended to link financial performance to the requirements of a competitive marketplace and an expectation of the need for high-yield investments for the future.

Other amendments and improvements to this Preliminary Annual Performance Plan include the addition and deletion of subgoals, the introduction of new indicators, and the setting of new performance targets. All goal statements, subgoals, indicators and performance targets are listed on the chart on page 97 below. The revised and previous goals and subgoals for all three Voices, and the reasons for changes, are listed in Appendix A.

Specifically, within the Voice of the Customer, customer needs segmentation, product and service “best value” criteria, and customer loyalty have been introduced as proposed subgoals. New VOC indicators will address delivery of remittance mail, ad mail, Priority Mail, ground packages, Periodicals and International Mail.

Within the Voice of the Employee, new subgoals are designed to improve workplace relations, to support employee success, to enhance security, to improve organizational understanding of employee issues, and to commit to meeting the needs of a diverse workforce. New VOE indicators will focus on REDRESS and contract compliance, on training and proficiency, on an employee survey, and on representation in organizational details and succession plans.

Within the Voice of the Business, a new consolidated net income subgoal has been introduced and a redundant cost control subgoal has been deleted. Two other subgoals have received minor changes. New indicators include a net income measurement aligned with the Board of Governors' Resolution 95-9, “Restoration of Equity and Recovery of Prior Years' Losses;” a commitment to no price increases in FY 2000; and adjusted measures for Total Factor Productivity and labor productivity.

1 LINKAGE BETWEEN ANNUAL PERFORMANCE PLAN AND STRATEGIC PLAN

The Postal Service’s revised corporate goals are to earn customers’ business by providing quality products and services at competitive prices; to build an inclusive and welcoming workplace that fosters success; and to perform financially to ensure viability, competitive pricing, and generation of sufficient cash flow for high-yield investments. These goals will again be reviewed in the annual management cycle dictated by the Postal Service’s *CustomerPerfect!* performance management system.

Management uses the annual planning cycle to propose these goals, categorized as customer, employee and business “voices,” and to develop, test and refine business strategies and measures of performance—indicators as well as targets. These proposals are first communicated as provisional targets. Then they are finalized during the deployment-phase budget process, when the cost effectiveness of specific program strategies is considered.

The FY 1998 management cycle produced measures for the FY 1998-2002 planning horizon, which were outlined in the United States Postal Service Five-Year Strategic Plan. As required by the Results Act, the Five-Year Plan also discussed the current Postal Service business environment and described the process used to obtain comments on the Postal Service’s proposed strategic direction from its stakeholders.

This Preliminary Annual Performance Plan presents provisional targets and program strategies for FY 2000. Publication of the Final Plan on September 30, 1999, after adoption by the Board of Governors, represents the last stage in the annual process.

2 RESULTS ACT REQUIREMENTS

The GPRA legislation sets forth the following content requirements for Postal Service Annual Performance Plans:

The Postal Service shall prepare an annual performance plan covering each program activity set forth in the Postal Service budget statement...

Such plan shall:

- (1) establish performance goals to define the level of performance to be achieved by a program activity;
- (2) express such goals in an objective, quantifiable, and measurable form unless an alternative form is used...;
- (3) briefly describe the operational processes, skills, and technology, and the human, capital, information, or other resources required to meet the performance goals;
- (4) establish performance indicators to be used in measuring or assessing the relevant outputs, service levels, and outcomes of each program activity;
- (5) provide a basis for comparing actual program results with the established performance goals; and
- (6) describe the means to be used to verify and validate measured values.

[Title 39, U.S. Code, Sec. 2803(a).]

In addition to the above statutory content requirements for the Annual Performance Plan, expanded discussions on the following topics have been included as recommended by GAO in their July 10, 1998 review of the Preliminary Annual Performance Plan for FY 1999:

- Current performance levels
- Linkage of performance goals, strategies, and resources
- Verification and validation
- Discussion of mission
- Connecting performance goals and budget
- Discussion of strategies and external factors

The table below lists the specific sections in this plan where each requirement or recommendation is discussed:

Requirement/Recommendation	Chapter: Sections
Establish performance goals	4: VOC, VOE, VOB; App. A
Express goals in a quantifiable form	4: VOC, VOE, VOB
Describe required resources	4: Resources and Programs
Establish performance indicators	4: VOC, VOE, VOB
Provide basis for comparing results with goals	4: <i>CustomerPerfect!</i> Annual Cycle
Describe how measured values are verified and validated	4: Verification and Validation
Include current performance levels	4: VOC, VOE, VOB
Provide linkages of goals, strategies, and resources	4: <i>CustomerPerfect!</i> , Implement
Discuss mission	4: Introduction
Connect performance goals and budget	4: Verification and Validation, VOB
Describe strategies	4: VOC, VOE, VOB
Discuss challenges and external factors	4: Challenges and External Factors

### 3 Postal Service Program Activities

Funded by the revenue generated by its products and services, the Postal Service's program activities support the organization's unique statutory mission to provide universal service and be self-sustaining. In this Annual Performance Plan, those activities—and the goals, indicators and targets that support them—are aligned with the Five-Year Strategic Plan prepared under the Government Performance and Results Act. For the Postal Service, the GPRA legislation's Senate Report (p. 39) states that a program activity should be considered to be "a specific activity related to the mission of the Postal Service, and does not relate to programs or activities listed in the Federal budget." The program activities discussed in this Performance Plan relate to the goals, indicators and targets for management improvement, to which the Postal Service's management process has given priority attention in fulfilling the Postal Service mission.

#### a. FY 2000 Operating Projections

The Postal Service's most recent financial projection for FY 2000 reflects a positive net income of \$150 million, with total revenues of \$65.874 billion and total expenses of \$65.724 billion.

The Postal Service is unlike other government agencies in that it receives no federal appropriations to subsidize its operations. Postal Service costs are funded exclusively by the revenues derived from services provided. Table 4-1 reflects the projected FY 2000 revenues to be received, by major product and service category, including the additional revenues from the Voice of the Business performance goals.

TABLE 4-1  
FY 2000 REVENUE PROJECTIONS  
(dollars in millions)

Revenue Category	Revenue
First-Class Mail	\$35,891
Priority Mail	4,968
Express Mail	923
Periodicals	2,210
Standard Mail (A)	15,915
Standard Mail (B)	1,960
International	1,679
Special Services	2,231
Subtotal: Total Mail and Services	65,777
Appropriation for Revenue Forgone	64
Investment Income	33
Grand Total Revenue	<u>\$65,874</u>

The products and services in Table 4-1 are the means by which the Postal Service fulfills its mission of providing universal service. Table 4-2 summarizes expenses that the Postal Service is projected to incur in delivering these products and services.

TABLE 4-2  
FY 2000 EXPENSE PROJECTIONS  
(dollars in millions)

Expense Category	Expense
Personnel Expenses:	
Compensation	\$36,744
Benefits	11,515
Subtotal: Personnel Expenses	\$48,259
Non-Personnel Expenses:	
Transportation	4,545
Supplies and Services	5,042
Building Occupancy	2,029
Depreciation/Write-offs	2,039
Vehicle Maintenance	778
Interest Expense:	
Deferred Retirement Liability	1,606
Borrowing	157
Research and Development	78
Other Miscellaneous	1,191
Subtotal: Non-Personnel Expenses	<u>\$17,465</u>
Grand Total Expenses	<u>\$65,724</u>

Included in Table 4-2 are costs of the major projects shown in Table 4-3 below. Each of these projects has a major impact on the FY 2000 budget, and each was developed as a means of explicitly linking budget resources with the Postal Service's corporate goals under the Voices of the Customer, the Employee and the Business. Brief descriptions of these programs, including linkages to the various performance goals, are provided in the next section.

TABLE 4-3  
FY 2000 MAJOR PROJECT COSTS  
(dollars in millions)

Program	Expense
Priority Mail Processing Centers	\$449
Mail Transport Equipment Service Centers	303
Corporate Call Management	158
Stamp Manufacturing	160
Year 2000	150
Associate Office Infrastructure	131
Delivery Confirmation Program	108
Point of Service One	186
Transit Time Measurement System	34
International Service Centers	\$ 16



These revenue and expense projections assume attainment of Voice of the Business financial performance goals detailed in Table 4-9 below. These performance goals are based on revenue growth strategies as well as the benefits resulting from productivity improvements. For example, the projected cost savings resulting from ten major FY 2000 cost reduction programs are shown in Table 4-4 below.

TABLE 4-4  
FY 2000 COST REDUCTION PROGRAMS  
(dollars in millions)

Program	Cost Savings
Delivery Barcode Sorters—Phases 4 and 5	\$180
Mail Transport Equipment Service Centers	72
Remote Bar Coding System	75
Automated Airline Assignment System	9
DBCS Output Subsystem	9
Flat Mail Optical Character Reader	34
Advanced Flat Sorting Machine	12
Small Parcel and Bundle Sorter Feed System	14
Tray Management System	24
Small Parcel and Bundle Sorter (buys 46 and 54)	20

Significant capital commitments of \$8.4 billion are projected in the FY 1999-2000 period that will influence the planned FY 2000 operating results. As described in the Resources and Programs section below, these investments emphasize technologies that produce labor savings or cost avoidance and customer service programs that generate revenue or enhance competitiveness in the marketplace.

TABLE 4-5  
FY 2000 POSTAL SERVICE GOAL CATEGORIES

Goal Category	Goal Statement
Voice of the Customer	Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.
Voice of the Employee	Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training, and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.
Voice of the Business	Generate financial performance that assures the commercial viability of the Postal Service as a service provider in a changing, competitive market place; and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.

## D. Where the Postal Service Is Going: Goals for FY 2000

The specific corporate goals, performance goals, indicators, and targets for FY 2000 presented below were developed during a planning process that began in September 1998 and will conclude in September 1999.

### 1 CORPORATE GOAL CATEGORIES: THE THREE-VOICE STRUCTURE

The Voice of the Customer goal category centers on customer satisfaction, meeting customer requirements and the achievement of superior quality at competitive prices. The Voice of the Employee goal category focuses on creating a workplace environment that fosters success and embraces the values of fairness, opportunity, safety, and security. The focus of the Voice of the Business goal category is on financial performance to assure commercial viability, bottom-line results and sufficient capital for future investments.

These three goals support three critical elements of the Postal Service: service to the customer, the employee on whom the quality of this service depends, and the financial base or the business that must match revenue and cost. The goals are summarized in Table 4-5 below:

Achieving these broad goals will allow the Postal Service to continuously improve service, ensure an effective and stimulating workplace environment and achieve superior financial performance. The service goals will be expanded to include all major product lines while sustaining the core mission of universal service. The human assets of the company will be the focus of investment by providing employees with the knowledge, tools, training and encouragement that will allow them to contribute to the success of the Postal Service and its customers. At the same time, the costs of service enhancements and investments in employees will be managed to assure successful financial performance.

These three goals, worded approximately in this form, have been the broad goals of the Postal Service since its inception. Concern for serving the customer, concern for the employee and concern for the bottom-line interest in the measures of business performance are the essential building blocks of the postal business. In an earlier day, when the forces of competition were not so apparent, the business goal might have been stated in terms of cost management alone. Today, the Postal Service must be successful in offering customers high-quality products and services that are chosen over competitive alternatives to match revenues and costs.

The three corporate goal categories are further clarified by identifying performance goals<sup>5</sup> or objectives that support performance measurement. These frame the critical actions needed to achieve the goals.

Specific performance measures—defined as indicators and targets—are linked to each performance goal. The Postal Service's *CustomerPerfect!* management system dictates an annual cycle of setting performance goals, deploying resources against those goals, measuring and rewarding performance, and evaluating and reviewing targets and performance. Each operating year is thus preceded by a planning year in which goals are set and resources are allocated. This cycle seeks achievement of continuous organizational improvement. The specific targets for Fiscal Year 2000 that will be managed in this way are summarized in Table 4-6, page 97.

<sup>5</sup> Performance goals are the "subgoals" of the *CustomerPerfect!* management system that frame the strategies discussed in the Five-Year Strategic Plan.

<sup>6</sup> The indicators and performance targets that are "in development" are assigned to a specific officer, who then creates cross-functional teams to develop, pilot test, and implement these measures.

## E. Voice of the Customer: Customer Satisfaction

### 1 PERFORMANCE GOALS, INDICATORS AND TARGETS

The performance goals of the Voice of the Customer are shown in Table 4-7 below:

TABLE 4-7  
VOICE OF THE CUSTOMER  
PERFORMANCE GOALS

**The Goal:** Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.

Performance Goal 1:	Provide timely delivery.
Performance Goal 2:	Provide consistent service.
Performance Goal 3:	Provide accurate service.
Performance Goal 4:	Ensure that the service is easy to use.
Performance Goal 5:	Explore customer needs segmentation as an alternative to product segmentation.
Performance Goal 6:	Develop "best value" criteria based on Customer Value Analysis.
Performance Goal 7:	Explore concept of customer loyalty for competitive prices.

The following section takes each of these performance goals for the Voice of the Customer, describes an indicator of performance and sets a performance target.<sup>6</sup> Performance baselines are provided where applicable as a standard for comparison.

#### a. Performance Goal 1: Provide timely delivery

For FY 2000, the Postal Service will:

- Achieve overnight First-Class Mail on-time performance of at least 93%. National performance for Quarter 1 of FY 1999 averaged 92.8%.
- Increase two- and three-day First-Class Mail on-time performance to 90%. National performance for Quarter 1 of FY 1999 was 86.6%.
- Complete development of a First-Class remittance mail on-time performance indicator; establish a performance baseline; and set an FY 2000 target when data are available.
- Achieve targeted Priority Mail on-time performance, as measured by the Delivery Confirmation system.

TABLE 4-6  
FY 2000 GOALS, SUBGOALS, INDICATORS, AND TARGETS—PROVISIONAL

Goal	Subgoal	Indicator	Target
Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.	Provide timely delivery	First-Class Mail on-time	93%
		EXFC overnight	90%
		EXFC 2/3 day	Develop indicator and baseline, set target
		Remittance mail	Proprietary information
		Priority Mail on-time	97% delivered within sales window
		Advertising Mail on-time	Proprietary information
		Ground packages on-time (destination entry)	Develop indicator and performance baseline
		Periodicals Mail on-time	Develop indicator and performance baseline
		International Mail on-time	Develop indicator and performance baseline
	Consistency	Customer Satisfaction Measurement survey responses	Validate indicators
	Accurate Service	Customer Satisfaction Measurement survey responses	Validate indicators
Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety, and security; where everyone is given the tools, training, and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.	Ease of Use	Composite Ease of Use Index	710
		Residential Ease of Use Index	760
		Premier Accounts Ease of Use Index	700
	Explore customer needs segmentation	Business Ease of Use Index	740
		National Accounts Ease of Use Index	685
		TBD	Develop indicators and targets
	Develop "best value" criteria	Customer Value Analysis	Develop indicators and targets
	Explore concept of customer loyalty	TBD	Develop indicators and targets
	Improve workplace relations by building leadership skills and behaviors	REDRESS 100% available	Develop indicator and performance baseline
		Arbitration win rate	Develop indicator and performance baseline
		Percent of suggestions responded to in a timely manner	100% response within six months
	Ensure that each and every employee is given the knowledge, tools, training, and encouragement to successfully meet the expectations for their positions	Business Information Survey—employees know goals	90%
		4 hours interpersonal skills training	100% of employees
		Percent of monetary recognition budget spent	Develop indicator
		Number of people receiving non-monetary recognition	Develop indicator
		Proficiency Indices	10% improvement in indicator
		Automation maintenance and operations	10% improvement in indicator
		Retail/unit process	10% improvement in indicator
	Improve employee safety, security, and well-being	Bulk mail acceptance unit/process	10% improvement in indicator
		Rural delivery operations	10% improvement in indicator
		Sales operations	10% improvement in indicator
		Other plant operations	10% improvement in indicator
	Improve understanding of employee issues and concerns	City carrier/computerized forwarding/platform operations	Develop indicators and performance baselines
		Updated indicators to match OSHA requirements	Develop indicators and baselines, set targets
		Lost workday injuries per 200,000 work hours	1.96
		Total accidents per 200,000 work hours	11.36
	Ensure an inclusive and fair environment with opportunities for all employees	Motor vehicle accidents per million miles driven	10.9
		VOE survey	Informational
		Percent of labor/management meetings held	Monitor
	Representative of all groups in details/special assignments	Workplace environment indicators	Develop indicator and baseline, set target
		Representation of all groups in details/special assignments	Develop indicator and baseline, set target
		Representation of all groups in succession plans	Develop indicator and baseline, set target
	Activities supporting the affirmative employment plan	Activities supporting the affirmative employment plan	Develop indicator and baseline, set target
Generate financial performance that assures commercial viability as a service provider in a changing competitive marketplace and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.	Overall VOB performance	Indexed EVA	Positive indexed EVA
		Capital commitment	\$4 billion
		Net income	\$150 million
	Controlling costs by achieving productivity gains	Total Factor Productivity	0.5%
		Labor Productivity	1.0%
	Keep price increases below inflation	Price changes vs. CPI	No price increase
	Restoring original equity	Net income in compliance with BOG resolution 95-9 goal	\$377 million/year over rate cycle

- Achieve 97% on-time performance for Ad Mail delivered within a requested sales window, using the ADVANCE measurement system<sup>7</sup>.
- Achieve targeted on-time performance for destination-entered ground packages, using the Delivery Confirmation system.
- Develop on-time performance indicators for Periodicals and International Mail by the end of FY 1999, and develop performance baselines by the end of FY 2000.

**b. Performance Goal 2:  
Provide consistent service**

For FY 2000, the Postal Service will:

- Validate recently developed Customer Service Measurement (CSM-B and CSM-R) indicators of delivery within 30 minutes of the scheduled time.

**c. Performance Goal 3:  
Provide accurate service**

For FY 2000, the Postal Service will:

- Validate recently developed Customer Service Measurement (CSM-B and CSM-R) indicators of complaints or claims for misdelivery, damage, or loss.

**d. Performance Goal 4:  
Ensure that the service is easy to use**

For FY 2000, the Postal Service will:

- Improve performance against Ease-of-Use Indices, which use customer satisfaction surveys to measure how easy it is for customers to do business with the Postal Service. Both composite and customer segment Ease-of-Use Index goals are shown below (based on a maximum index value of 1000):
  - Increase the Composite Ease-of-Use Index to 710. Performance through Quarter 1 of FY 1999 was 656.
  - Increase Residential Ease-of-Use Index to 760. Quarter 1 FY 1999 performance was 680.
  - Increase Premier Accounts Ease-of-Use Index to 700. Quarter 1 FY 1999 performance was 627.
  - Increase Business Ease-of-Use Index to 740. Quarter 1 FY 1999 performance was 686.
  - Increase National Accounts Ease-of-Use Index to 685. Quarter 1 FY 1999 performance was 631.

**e. Performance Goal 5:  
Explore customer needs segmentation as an alternative to product segmentation**

For FY 2000, the Postal Service will:

- Develop indicators and targets based on customer needs segmentation.

**f. Performance Goal 6:  
Develop "best value" criteria based on Customer Value Analysis**

For FY 2000, the Postal Service will:

- Develop indicators and targets using the Customer Value Analysis technique.

**g. Performance Goal 7:  
Explore concept of customer loyalty for competitive products**

For FY 2000, the Postal Service will:

- Develop customer loyalty indicators and targets.

The customer service goals and performance goals are derived from customer satisfaction surveys and research conducted on behalf of the Postal Service by outside evaluation professionals. The seven performance goals support the core strategy of the Postal Service, providing improved customer value. The strategy is designed to lead to value creation in each market served through recognition of the customer's interests in both excellent and affordable service. The research (mentioned in Performance Goals 5-7) focusing on customer needs, customer value and loyalty may lead to a reformulation of these generic performance subgoals in the future.

These customer-focused goals are aligned with the employee and business goals whose descriptions follow. If the customer goals require it, the Postal Service is committed to developing appropriate additional human resources and investing additional financial resources to improve value. Recognizing the diversity of its markets and customer needs, the Postal Service will develop the postal network to make it more flexible and responsive to the demands of competitive markets.

<sup>7</sup> With the ADVANCE system, business customers use the Internet to give local postal managers timely notice of mailings scheduled for delivery. An electronic image of the scheduled mail piece aids recognition. Detailed compliance and performance reports are accessible to both postal supervisors and mailing customers.



2 NEW INDICATOR DEVELOPMENT

Several new indicators are being implemented during FY 1999 to support achievement of the improvement targets for 2000 and beyond. These include new indicators for Priority Mail, Ad Mail, and ground packages. For FY 2000, the service attributes for which new indicators are being developed include on-time performance for remittance mail, International Mail, and Periodicals.

a. Universal Service Measure

In the GAO’s review of the draft Five-Year Strategic Plan in 1997 and in subsequent discussions concerning legislative reform, there has been interest in identifying measures related to the Postal Service’s responsibility to provide universal service, as specified in the Postal Reorganization Act of 1970 and in subsequent actions of Congress, the courts and regulators.

Several of the Voice of the Customer measures discussed here—ease of use for retail, for example, or performance of the basic First-Class Mail product—are related to the fulfillment of the Postal Service mission to provide universal service to all communities at a uniform price and to bind the nation together through the efficient delivery of postal services. To guide the development of measures in future annual management cycles and to ensure that the specific measures developed under the three Voices are defined in a manner that permits the Postal Service to fulfill its statutory mission, the Postal Service has undertaken a multi-year initiative to develop a definition of universal service and to assess its meaning with respect to service requirements.

The experience of other industries and posts that have sought to define such universal service concepts (such as the telecommunications industry subsequent to the Telecommunications Reform Act of 1996 and the electric utility industry) has relevance to this effort. An initial review of universal service definitions used by these entities has been completed, and the findings will be reported by the end of the current fiscal year. During the remainder of FY 1999, the Postal Service will review its own statutory universal service obligations, and will continue consultations with stakeholders, policy makers, regulators and experts to define terms and analytical methods that may be appropriate in the context of future postal reform discussions.

F. Voice of the Employee: Organizational Effectiveness

1 PERFORMANCE GOALS, INDICATORS AND TARGETS

The performance goals for the Voice of the Employee are presented in Table 4-8 below.

TABLE 4-8  
VOICE OF THE EMPLOYEE  
PERFORMANCE GOALS

**The Goal:** Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety and security: where everyone is given the knowledge, tools, training and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers’ and the Postal Service’s success.

- |                     |   |
|---------------------|---|
| Performance Goal 1: | Improve workplace relations by building leadership skills and behaviors.  |
| Performance Goal 2: | Ensure that each and every employee is given the knowledge, tools, training, and encouragement to successfully meet the expectations for their positions. |
| Performance Goal 3: | Improve employees safety, security, and well-being.   |
| Performance Goal 4: | Improve understanding of employees issues and concerns.   |
| Performance Goal 5: | Ensure an inclusive and fair environment with opportunities for all employees.  |

a. Performance Goal 1:  
Improve workplace relations by building leadership skills and behaviors

For FY 2000, the Postal Service will:

- Make the REDRESS process available to all Performance Cluster<sup>\*</sup> employees.
- After completion of labor negotiations, set a contract compliance target based on the percentage of grievances denied by arbitrator.
- Respond to all employee suggestions within six months.

<sup>\*</sup> A Performance Cluster is one of 85 geographically based, midlevel organizational units.

**b. Performance Goal 2:**

**Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations for their positions**

For FY 2000, the Postal Service will:

- Achieve a 90% score on the Business Information Survey.
- Provide at least 4 hours of interpersonal skills training for all employees.
- Improve the employee proficiency index for each operations category shown below by 10% compared to the FY 1999 value:
  - Automation maintenance and operations
  - Retail unit/process
  - Bulk mail acceptance unit/process
  - Other plant operations
  - Sales
  - Rural carriers
- Develop additional proficiency indicators and performance baselines for city carriers, computerized forwarding, and platform operations.
- Develop indicators for monetary and non-monetary recognition.

**c. Performance Goal 3:**

**Improve employees safety, security and well-being**

For FY 2000, the Postal Service will:

- Develop/update safety indicators to match OSHA requirements and set targets.
- Keep lost workdays due to injury per 200,000 work hours below 1.96. As of Quarter 1 of FY 1998, the rate was 1.57.
- Keep total accidents per 200,000 work hours below 11.36.
- Keep motor vehicle accidents per million miles driven below 10.90.
- Develop indicator and performance baseline for security of postal facilities.
- Develop process for identification and resolution of hostile environment.

**d. Performance Goal 4:**

**Improve understanding of employee issues and concerns**

For FY 2000, the Postal Service will:

- Conduct a Voice of the Employee survey.
- Monitor the percentage of required labor/management meetings held.
- Develop an index and performance baseline for the workplace environment and set targets.

**e. Performance Goal 5:**

**Ensure an inclusive and fair environment with opportunities for all employees**

For FY 2000, the Postal Service will:

- Develop indicators, performance baselines, and targets for the following:
  - Representation of all groups in details and special assignments.
  - Representation of all groups in succession plans.
  - Activities supporting the affirmative employment plan.

The Postal Service's goal of building an inclusive and welcoming workplace that fosters success will be driven by the strategies, tactics and programs described below.

In order to achieve its vision as the most effective and productive service in federal government, the Postal Service will have to become an organization that excels in the development of leaders. That improvement effort is already under way, and is reflected by the investment in the training of new managers and supervisors in communication, conflict management and leadership skills. This commitment will enhance executive effectiveness, advance the organizational commitment to value, leverage diversity, and create a valuable resource of midlevel managers prepared to assume leadership roles.

Leadership improvement will begin with the adoption and implementation of the Leadership Behavior Model, a set of described behaviors designed to reflect the core values of the Postal Service. The values were conceived to be applicable in everyday management. An assessment process has been developed to help managers recognize and improve their skills in communicating leadership behavior, to build a new individual development plan reflective of the feedback, and to positively impact their work units.

Supervisors and managers will continue to have an opportunity to participate in courses specifically designed to enhance their skills and competencies both on a technical level and as leaders. A new course, the Career Management Program, will be deployed to address the training needs of supervisors and managers in the EAS level 15-22 range. With the introduction of this program, the training needs of supervisors and managers at all levels in the organization will be met. The Postal Service will continue to administer

the Associate Supervisor program for initial level supervisors as well as the Advanced Leadership Program, which targets individuals selected as high potential future leaders of this organization. In addition, specific functional and administrative training for supervisors in delivery, retail and plant operations, will be available in FY 2000.

Improving workplace relationships with employees and the unions and management associations that represent them is a key objective of the Postal Service. Initiatives and key programs will focus on reducing conflict in the workplace, on identifying and eliminating root causes of labor disputes, on building knowledge of the contents of labor contracts, and on improving the effectiveness of grievance-arbitration procedures to resolve labor disputes.

In order to resolve and expedite employee complaints at the lowest possible level, the REDRESS program, developed as an alternative to the traditional Equal Employment Opportunity (EEO) process, will be deployed and made available to all Performance Cluster employees. Under REDRESS, an employee who has alleged discrimination may elect to have his/her case mediated by an impartial mediator within two weeks of the initial request. Mediation has proven to be a fast and effective process to resolve complaints by eliminating the investigation and processing costs of formal complaints. If the case is not resolved, the employee may return to the EEO process to file a formal complaint.

The Postal Service will continue its focus on strengthening the linkage between education and training and the key performance goals. Tactics include building performance through the acquisition of competencies, developing learning plans, and using business measures as indicators of success. The Business Information Survey, conducted by telephone survey to a random sample of employees, will assess the extent to which information about unit goals and unit performance is being communicated. Survey responses will be tabulated and compared to the FY 2000 performance target, which is to improve employees' knowledge of their unit goals and unit performance to 90%.

To assess the proficiencies of employees, two measurement systems have been put in place. The Mystery Caller program will conduct employee surveys in the areas of technical knowledge, consistency and helpfulness, and the Gallup Organization will summarize customer responses to surveys relating to technical knowledge, consistency, helpfulness and facility appearance. These data will provide a basis to identify training needs by assessing areas for improvement and for the calculation of a business mail entry unit proficiency index scores.

The Postal Service has taken a leadership role in protecting employee safety and health. Starting in FY 1999, the Postal Service will be working closely with OSHA as federal agency safety and health programs and regulations are implemented. The OSHA and PESEA enforcement activities will have significant operational, labor relations and economic impact. There will be continued strong emphasis on the establishment and maintenance of a comprehensive safety and health program that includes training and education, workplace inspections, safety engineering, joint labor/management safety and health committee activities, and thorough accident investigation, reporting and analysis to identify trends and appropriate prevention and control measures. Low accident and injury statistics have always been in line with Postal Service corporate goals to reinforce employee commitment, customer satisfaction, and revenue generation. The key supporting programs create line management accountability, rely on expertise found in the medical community and work with the Postal Inspection Service to address cases of fraud and abuse in workers' compensation.

The Postal Service calculates its Lost Workday Injury Frequency per 200,000 work-hours using the same industry-wide accepted criteria as most other large organizations. The goal of ensuring a safe work environment is achieved by keeping lost workdays due to injury below 1.96 per 200,000 work hours. Key tactics to support this strategy include workplace anti-violence initiatives focused on improving employees' sense of safety, and the refinement of the Employee Assistance Program to better meet changing workplace needs. The components of the workplace violence prevention program include physical security measures, training and education, the development of threat assessment teams and crisis management plans, better selection procedures and improved employee support.

The development and establishment of indicators and a performance baseline for the security of postal facilities will be the result of new benchmarking efforts, examination of existing data, and a review of positive model sites. The identification and resolution of troubled work sites will be developed, approved and implemented in collaboration with employee organizations. The process will establish baseline data and representative indicators for monitoring.

The Employee Assistance Program (EAP) will continue to offer voluntary, confidential counseling services on issues including chemical and drug dependency; financial, legal and emotional issues; and marital and family problems. EAP intervention services will work closely with supervisors to address drug abuse issues, and to make resources available to employees seeking assistance and counseling in overcoming drug dependencies.

A Voice of the Employee survey will be administered quarterly to a sample of employees to obtain information to enhance the workplace environment and improve relationships with employees. The Gallup Organization will conduct these surveys, including distribution, scoring and compilation of the results.

The Workplace Environmental Improvement office serves as a focal point to address employee concerns and identify major themes and trends. Current programs and initiatives will be evaluated against the main messages heard from employees. Existing employee feedback systems will be reviewed and enhanced to facilitate an increased flow of employee input. An index and performance baseline for the workplace environment will create practical workplace indicators for analysis and revision of current and proposed initiatives. The process will also serve to prioritize organizational efforts.

To achieve maximum corporate success, the Postal Service will continue to develop and implement strategies and objectives to promote a positive work environment that energizes high-quality people, acknowledges and values everyone, and enables all employees to perform at their highest potential. The Diversity Business Plan, developed in 1998 and issued in 1999, identified four principal objectives (and supporting tactics) that are being implemented over a five-year period—in partnership with other organizational functions—to attain Postal Service

diversity goals. The continued focus of these objectives is to communicate the diversity message; to develop and promote recruitment, retention, and promotion practices to help capture the unique contributions that everyone has to offer; to create a work environment free from discrimination and sexual harassment; and to establish and maintain a strong, competitive and diverse supplier base. Finally, the Postal Service will maintain the 23 diversity improvement initiatives resulting from the 1996 study commissioned by the Board of Governors, ensuring for the year 2000 and beyond that the initiatives it has implemented are monitored and updated.

Career development opportunities for supervisor and management employees in levels EAS-18 and above are the focus of the Career Development Tracks program, which has been developed to prepare employees to meet the Postal Service's future need for postal managers. Critical requirements and requisite competencies for various management positions have been identified to assess the readiness levels of employees and to design developmental assignments that will help them develop necessary competencies in preparation for higher level positions. Planned activities that will help to narrow the gap between what the employee can already do and the skills and competencies needed for future work requirements will be outlined in individual learning plans.

## 2 NEW INDICATOR DEVELOPMENT

New indicators used for the first time in FY 1999 to support VOE proficiency improvement targets include rural delivery operations, sales operations and other plant operations. During FY 2000, proficiency indicators will be developed for the remaining operations employee groups—city carrier, computerized forwarding system, and platform operations. Other FY 2000 development efforts include new indicators for leadership behaviors, leadership training, use of employee suggestions, monetary and non-monetary recognition, OSHA safety requirements, facility security, identification and resolution of hostile environments, and diversity development.



## G. Voice of the Business: Financial Performance

### 1 PERFORMANCE GOALS, INDICATORS AND TARGETS

The financial performance goals for the Voice of the Business are presented in Table 4-9 below. Financial performance baselines are available from a variety of internal reporting systems.

TABLE 4-9  
VOICE OF THE BUSINESS  
PERFORMANCE GOALS

**The Goal:** Generate financial performance that assures the commercial viability of the Postal Service as a service provider in a changing, competitive marketplace; and generate cash flow to finance high-yield investments for the future while providing competitively priced products and services.

Performance Goal 1:	Improve overall business performance.
Performance Goal 2:	Control costs by achieving productivity gains.
Performance Goal 3:	Keep price increases below the rate of inflation.
Performance Goal 4:	Restore original equity.

#### a. Performance Goal 1: Improve overall business performance

For FY 2000, the Postal Service will:

- Generate positive indexed economic value added (EVA).
- Achieve a capital commitment budget of \$4 billion.
- Achieve an overall net income of \$150 million.

#### b. Performance Goal 2: Control costs by achieving productivity gains

For FY 2000, the Postal Service will:

- Achieve a Total Factor Productivity (a measure of total resource usage efficiency, including capital) gain of 0.5%.
- Achieve a labor productivity (a measure of labor resource usage efficiency) gain of 1.0%.

#### c. Performance Goal 3: Keep price increases below the rate of inflation

For FY 2000, the Postal Service will:

- Maintain current rates.<sup>9</sup>

#### d. Performance Goal 4: Restore original equity

For FY 2000, the Postal Service will:

- Ensure compliance with the equity restoration policy of Board of Governors' Resolution 95-9 by achieving net income of at least \$377 million per year averaged over the current rate cycle.

The Voice of the Business goals drive performance to the bottom line. The essence of the customer value strategy described above is a focus on growth. During FY 2000, most revenue is expected to come from core business lines that are in place today. To *grow* the business, the Postal Service intends to build business activities such as advertising mail, expedited and parcel delivery and international services. At the same time, the Postal Service will *defend* its threatened core business such as remittance mail, and also work to *create* new products and services that can respond to changing customer requirements.

While the initial focus of the financial goals is on generating net income through volume growth, this growth must be paralleled with a series of efforts to manage costs. Major investments to improve productivity also focus on achieving enhanced net income performance.

There is also a need to ensure that this net income is based on fundamentally sound and improving postal economics. To track gains in productivity, measures of Total Factor Productivity (TFP), which takes into account all factors of production, and a less complex labor productivity measure will be used. These measures track the relationship between Postal Service outputs—mail volume and servicing an expanding delivery network—and resource inputs of labor, materials, and capital investments. It is not unusual for TFP and labor productivity to fluctuate from one year to another, but over the long run a successful organization will achieve positive growth in productivity. The Postal Service's objective is to improve TFP over time while maintaining a balance with service

<sup>9</sup> The modest rate increase (one cent on the First-Class stamp) originally planned for late FY 1998 was instead implemented on January 10, 1999. The rate increase averages 2.9% compared to projected inflation of 9.8% since rates were last increased on January 1, 1995.

improvements necessary to achieve customer satisfaction and maintain a competitive position in the marketplace. Expenditures to enhance service may occasionally cause a short-term decline in the growth of TFP, since Postal Service TFP does not currently include a measure of service quality.

Two other economic parameters are tracked by the financial performance goals—the price of postage and the restoration of the original equity of the Postal Service. In future years, there may need to be small, periodic price increases even with exceptional cost reduction success and productivity gains. Based on discussions with customers on the Strategic Plan, small, predictable increases below the rate of inflation are clearly preferred if any increases are determined to be necessary. The goal—if that is the case—is to keep price changes below the rate of inflation.

## 2 NEW INDICATOR DEVELOPMENT

During FY 1999, the Postal Service developed a quarterly Cost and Revenue Analysis (CRA) report. This report presents revenues and attributable costs (variable with volume or specifically identified to a class of revenue) for each mail class and subclass, plus the major special services. By making this report widely available throughout the Postal Service, managers and employees will be better able to identify cost trends and will be encouraged to grow the business in the areas that most improve the bottom line. The development of a “labor intensity” index will also be explored for possible use in FY 2000.

## H. *CustomerPerfect!* Managing the Postal Service

As described in its September 1997 Five-Year Strategic Plan, the Postal Service uses a management system that is based on the criteria of the Malcolm Baldrige National Quality Award—*CustomerPerfect!*. Consistent with the principle of excellence through continuous improvement, the performance of the management system itself, and opportunities for improvement, are subjects of ongoing review. Planned improvements to the overall management system and to each of its four component phases—Establish, Deploy, Implement, and Review—are described in the next sections.

## 1 IMPROVING THE MANAGEMENT SYSTEM: A BALDRIGE ASSESSMENT

In FY 1998, the Postal Service undertook a full assessment of its management system against the Malcolm Baldrige Quality Award criteria. This review was conducted with the assistance of outside experts who had experience as examiners for the Baldrige Award or for similar state quality awards. The assessment included a written summary of the Postal Service’s management system, organized as an “application” for the Baldrige award. The assessment documented the national approaches to addressing the core categories of the Baldrige award, and also included data on the business results attained by the Postal Service in Fiscal Years 1995 through 1997.

The written assessment was reviewed by a team of outside examiners. Following an initial review, this team of outside examiners, assisted by Postal Service managers and quality specialists, conducted site visits at headquarters, all ten area offices, ten performance clusters and several other field sites. Over 1000 postal employees were interviewed during the course of the site visits. Following the site visits, the outside examiners facilitated a series of meetings in which the Postal Service officers received feedback on the Baldrige assessment and then identified five key opportunities for improvement. Those five major improvement priorities and associated improvement projects (“outcomes” in Baldrige terminology) are discussed below.

### a. People

Communication and relationships with employees and the bargaining units that represent them will be improved. Key to achievement of this objective will be ensuring that front-line supervisors know how to work with and lead employees in a constructive, non-confrontational manner.

### b. Human Resource Strategy

The human resource implications of the strategic business objectives will be defined, and human resource plans will be developed accordingly. Key to this objective will be listening to employees and effectively incorporating human resource capabilities and objectives into the planning process, thereby ensuring that the Voice of the Employee is indeed the employee’s voice.

### **c. Process Management**

Core processes will be standardized across all operations, making sure to leverage those approaches that are most effective in helping to meet performance objectives. Key to succeeding with this improvement priority will be strengthening the management of network-critical processes, establishing organization-wide standards, and field-level understanding of process control and metrics.

### **d. Comparative Data**

A strategy will be developed for identifying, collecting, and using comparative data to evaluate performance. Key to meeting this objective will be establishing a national approach to benchmarking, understanding what criteria should be used for selecting sources of comparative data, and building these measures into the management cycle.

### **e. Alignment of Direction**

The identity of the Postal Service will be affirmed to ensure that there is no ambiguity of purpose or direction. Key to this will be resolving the tension between the Postal Service's charge as a public service and its role as a competitive businesslike entity. To address the alignment of direction finding, senior management engaged in an in-depth review of the following areas in the fall of 1998: the Postal Service's statutory responsibilities and the changing regulatory environment faced by other postal administrations and other regulated industries; emerging complementary and substitution technology; changing customer expectations; the changing competitive environment; and the implications of these changes for Postal Service people, operations, and performance management.

As of December 1998, a total of 39 project teams have been formed to respond to the findings of the Baldrige assessment (see Appendix B for a listing of these projects). Multi-year project plans have been developed for each outcome and are being monitored by a team of officers that meets regularly to guide the continued development of the management system.

## **3 ESTABLISH: VERIFIABLE PERFORMANCE IMPROVEMENT GOALS**

The Establish phase benefited from the output of the alignment of direction effort described above, which resulted in a clarification of the Postal Service's understanding of the future environment. As a result, the goals and subgoals were reviewed and updated by senior management, under the leadership of the Postmaster General, with the advice of the Board of Governors.

Improvements in the process also resulted from the use of additional data on customer requirements and the external environment from marketing plans and a business environmental assessment. These data were useful in specifying new performance targets under the Voice of the Customer. In addition, data from a new Voice of the Employee survey and from the Baldrige assessment itself were used in updating and revising the VOE goals and subgoals.

## **4 DEPLOY: RESOURCES NEEDED TO MEET GOALS**

The Deploy process continued to be refined during FY 1999, based on the experience of the preceding year. In preparation for determining FY 2000 resource allocation priorities, the guidelines for identifying resources needed to achieve targets were updated and standardized. In addition, a more systematic effort to involve performance cluster as well as area managers in performance/resource tradeoff discussions was introduced, in order to increase the level of involvement of field managers and to improve the quality of the plans developed during Deploy. Further progress in driving Deploy discussions deeper into the organization is expected during the Fiscal Year 2000 management cycle.

## **5 IMPLEMENT: LAUNCHING PROGRAMS AND ACTIVITIES**

### **a. Improved linkage between performance goals and major programs.**

The ten major projects listed in Table 4-3 above are specifically designed to help achieve one or more of the FY 2000 *CustomerPerfect!* performance goals. The purpose of each of these programs and their associated performance goals, performance measures and status are briefly described below.

**1. Priority Mail Processing Centers**—This dedicated delivery network will contribute to the performance goal of improving customer satisfaction (VOC) by providing consistent and reliable Priority Mail service. This is the

key to plans for growing this product line, enhancing service offerings and redefining the product. Ten centers are now in service.

**2. Mail Transport Equipment Service Centers—**Mail Transport Equipment (MTE) moves the mail and must always be available. To facilitate this goal, in the summer of 1997 the Board of Governors approved implementation of a network of 22 contractor-operated service centers designed to receive used MTE, as well as inspect, sort, repair, and store it. MTE will be redistributed on dedicated, scheduled transportation to internal and external users. This network will free mail processing managers from MTE responsibilities and allow them to focus on processing the mail. At the same time, customers will consistently receive high-quality mail transport equipment, thus supporting the VOC Ease of Use and Customer Satisfaction goals. Four MTE sites are currently operational and the remaining 18 sites will be completed by the end of 1999.

**3. Corporate Call Management—**This program supports the Ease of Use performance goal (VOC) by improving customer service through easy access to Postal Service products and services. It provides a reliable, convenient way for customers to obtain information concerning their mailing needs. The Postal Service monitors the number of calls received by customer call centers and the length of time customers wait for responses. By the end of FY 1999, Call Center service will be expanded from one to three.

**4. Stamp Manufacturing—**This ongoing program will provide sufficient stamp and postal stationery volumes and formats to meet customer demand for both mail use and philatelic purposes. It supports the improvement of net income from new products and services (VOB) by providing postage stamps and postal stationery for sale. Sale of stamps and postal stationery are tracked through the Postal Service Financial Reporting (PSFR) system. Stamp retention for philatelic purposes is tracked through independent quarterly surveys of approximately 60,000 households conducted by the Home Tracking Institute.

**5. Year 2000—**This program supports the Provide Timely Delivery performance goal (VOC) by ensuring that critical Postal Service systems continue without error or interruption (caused by date data) to and through the year 2000. Resources have been identified and project plans developed against which to measure success. The priority effort is to complete remediation on those systems for which a failure would have a severe or critical impact on the movement of mail. The Year 2000 Program Management Office monitors and assesses remediation activity, reports regularly to senior management, and manages an independent, post-implementation verification process that provides an additional assurance that remediation efforts were performed successfully. In addition to managing the completion of remediation in FY 1999, considerable effort will also be expended to test the overall readiness of the Postal Service for the new millennium, and for contingency planning to minimize the impact of any internal or external failure on business operations. FY 2000 emphasis will be on readiness planning and testing and establishing and executing a recovery management infrastructure to address Year 2000 failure situations as they arise from internal or external causes.

**6. Associate Office Infrastructure (AOI)—**This program provides Postal Service facilities with modern computer cabling and electrical systems. It includes local area network wiring, workstation outlets, a patch panel, a server, a printer, and an uninterrupted power supply. The AOI will enable critical business applications to be deployed in the field. Two critical applications that are driving the schedule are Point of Service and Delivery Confirmation. The AOI program provides the necessary infrastructure to enable other applications and programs to increase revenues, decrease costs and improve the delivery of existing products. AOI is scheduled to be deployed to 7,000 post offices by the end of FY 1999.

**7. Delivery Confirmation—**This program supports the Provide Timely Delivery performance goal (VOC) by providing diagnostic information to improve service for all Priority Mail and Standard B mail. Improved service will result in additional business, thereby supporting the VOB Net Income performance goal. Delivery Confirmation service is scheduled to be activated in March 1999 when deployment of scanners is complete.



**8. Point of Service One**—This program supports a variety of performance goals as follows. Under VOC, it supports Provide Accurate Service and Provide Ease of Use performance goals by delivering an improved level of service to customers. This new system will also Enhance the Workplace Environment and enable employees to Demonstrate Required Proficiencies (VOE) in the performance of their duties. As a result, increases in Net Income (VOB) will be achieved as customers realize the benefits of the new system. Point of Service One is scheduled to be deployed to approximately 10,800 retail units by the end of FY 2000.

**9. Transit Time Measurement System**—This ongoing program supports the Provide Timely Delivery performance goal (VOC) by measuring the achievement of service standards from the customer's point of view. Information gathered helps to determine the effectiveness of system performance in satisfying customer requirements. The system currently includes the External First-Class and Priority End-to-End measurement systems, and will be expanded to other areas including remittance mail, Global Priority Mail, Ad Mail, and the domestic portion of International Service Contracts.

**10. International Service Centers**—This program involves establishment of a network of processing and distribution plants dedicated to the handling of international and military mail. Approved by the Board of Governors in August 1997, the plants in New York, Dallas, Miami, and Los Angeles will be online by the end of FY 1999. During the first quarter of FY 2000, the Dulles (VA) and Chicago plants will begin operations, and the three remaining plants will be completed by the end of that fiscal year. This network will contribute to the VOC performance goal by increasing the consistency of international and military mail service performance and to the VOB goal by providing the flexibility to contain costs and adapt to product changes designed to increase revenue.

#### **b. Program Management**

To bring about more effective program management, the Postal Service has launched a formal management improvement effort. The initiative includes concept, methodology and procedural guidance for managing Postal Service programs through four major development phases: plan, design, build and implement.

With this approach, program directors are charged with managing performance of their programs. A variety of program performance measures, including span of time, capital and expense commitments, technology usage, manpower requirements, and cross-functional organization teamwork, are continually monitored to ensure adherence to national and corporate standards for processes, facilities, equipment, software and hardware.

Each program is formally reviewed and evaluated periodically as to its particular project plan, with emphasis on:

- Contract performance, including contract changes and contractor issues.
- Program cost performance, including both capital and expense funds and earned value.
- Technical status, including significant accomplishments, problems, and corrective actions.
- Schedule status, including major milestones, critical path activities, and other key activities.

As of December 1998, seventeen programs had been identified to participate in this process; more programs will be added over time. Eight of these seventeen programs are described above: Priority Mail Processing Centers, Mail Transport Equipment Service Centers, Corporate Call Management, Year 2000, Associate Office Infrastructure, Delivery Confirmation, Point of Service One, and International Service Centers. The remaining nine programs are described below.

**1. Tray Management System**—Automated material handling technology program designed to reduce allied labor expense and improve operational efficiency while providing real-time work-in-process information. This is an engineering solution to improve productivity and efficiency. Program is in design and build phases.

**2. PostOffice Online**—Program will develop a World Wide Web page for small and home offices, offering services such as a simplified shipping system for Priority and Express Mail and hybrid mailing services. The program is in the design and build phases.

**3. Delivery Redesign**—Program developed to improve the accuracy and consistency of mail delivery for postal customers, placing responsibility and accountability of day-to-day delivery with the carriers. Testing is continuing with sites transitioning

to the most successful concepts. A focus on supervisory activities has been built into this redesign program. Program is in the design and build phases.

**4. Mailer Enterprise Integration**—Program designed to integrate customer and Postal Service processes, including documentation, transportation management, acceptance and verification, payment, and information access using advanced information technology. Program is in the design and build phases.

**5. Next Generation Flat Sorting Machines**—The goal of this program is to deploy state-of-the-art flat sorting equipment to handle additional capacity needs and replace the current model 881 flat sorters. An initial purchase of 175 units will increase capacity requirements at the processing and distribution centers. A second purchase will replace the existing fleet of model 881 flat sorting machines. Finally, additional machines will be deployed to perform delivery point sequencing of flats. Program is in the build stage.

**6. Robotics**—Program designed to acquire over 300 robots to automatically unload letter mail trays and flat tubs from mail containers. These robots will replace current labor intensive operations in the opening unit and container breakdown operations of Processing and Distribution Centers, Bulk Mail Centers and Air Mail Centers with automated equipment. Upon full deployment, a significant reduction in mail handler workhours is expected. Program is in design and build phases.

**7. Facility Activation**—Program involves the design and construction of the Northwest Metro facility in Michigan. It is designed to develop a benchmark planning process for all future Postal Service construction projects. Program is in the design phase.

**8. Human Resources/Payroll Enterprise System Solution**—Project designed to replace existing “stove-pipe” human resource and payroll systems that are 15-20 years old, expensive to operate and impossible to modify to fit today’s corporate requirements. The solution will be a single, integrated system that incorporates industry best practices, enables new business practices, reduces data redundancies and inconsistencies and provides easier access to the right information. Program is in the design phase.

#### **9. Postal Electronic Payment Platform (PEPP)**—

This program will provide an enhanced level of service to business customers by facilitating various methods of making electronic payments to the Postal Service. PEPP will create a platform that combines all electronic automated clearinghouse and wire payments into a single Postal Service financial institution, and will provide business customers with a cohesive method of paying the Postal Service electronically as well as on-line reporting that supplies all necessary payment information to them.

#### **c. Process Management**

During FY 1999, the effort to implement process management throughout the Postal Service will be enhanced through the development of an enterprise map. The enterprise map categorizes all of the activities of the Postal Service into twenty-eight major processes, encompassing all core and enabling processes. Within each category, the Postal Service will identify separate high level cross-functional processes that document all of the activities needed to carry out the Postal Service’s mission. Both the core processes needed to provide mail delivery services and enabling processes such as hiring, training, buying, maintaining equipment, budgeting, and payroll will be identified and documented.

Process “owners” responsible for the end-to-end performance of these cross-functional processes will be identified during FY 1999 and given responsibility for completing the documentation and measurement of the processes. Performance measures for each process will be identified and developed over time, and efforts to improve or redesign processes will be measured in terms of improvements in these performance measures.

In the field, the Postal Service is building on the lessons learned in the early phases of deployment of process management and is using process management to develop standard approaches to collecting, processing, transporting, and delivering the mail that will be used in all postal facilities. These updated standard operating procedures will be supported by a system of indicators or measures that track performance in terms of accuracy, productivity, cost, and cycle time of individual operations. This system of indicators will enable the

Postal Service to continuously improve the quality and cost of delivering services to the American public, and will thereby provide better value in meeting the fundamental mission.

**d. Communication of Strategic Goals Throughout the Organization**

During FY 1999, additional methods for communicating the Postal Service's strategic goals to employees at all levels of the organization were explored. A pilot communications program designed around the concept of "taking strategy to the shop room floor" was conducted in the Baltimore District. In this project, first-line supervisors gave weekly presentations on Strategic Plan goals and objectives to their respective employees that were designed to increase awareness of the specific local performance targets. In another effort, focus group discussions and individual in-depth interviews were conducted with employees to assess awareness of the Strategic Plan, and to learn how employees interpret the Plan and their role in implementing its goals. Also during FY 1999, all Postal Service employees will attend a training session titled "Strategic Focus '99," which explains the strategic goals and performance metrics defined by the five-year targets. These efforts to improve the effectiveness of employee messaging relating to the importance of planning and performance will continue during FY 2000.

**e. Review: Comparison of Actual Results with Goals**

During FY 1999, the business review process is being further refined to reinforce the renewed strategic direction created during the Establish process. In addition to maintaining a focus on achieving the targets included in the FY 1999 Annual Performance Plan, reviews at all levels deal with the key programs and change initiatives, such as the *CustomerPerfect!* plans to respond to the Baldrige assessment and the major investment programs that are critical to the continued success of the Postal Service. The increased use of process management in the field will provide a context for more effective use of data in reviews. Process management allows line managers to separate the day-to-day variation inherent in any process from the relatively infrequent events that signal a fundamental change in process performance.

**I. Resources and Programs: Achieving the Goals**

Generally, resource allocation strategies reflect plans to meet the needs of the three Voices—Customer, Employee, and Business. The Postal Service will improve service by providing better operating performance and more effective management of customer contact operations. Employee effectiveness will be improved by focusing new resources on training, complement deployment, and efforts to enhance the workplace. The organization will work to aggressively control costs through a combination of productivity improvements, efforts to make best use of key human resources, and unit cost management of all resources.

**1 FIVE-YEAR CAPITAL PLAN**

The Postal Service's five-year capital investment plan provides a foundation that supports the Five-Year Strategic Plan as well as the FY 2000 performance goals. As shown in Table 4-10 below, significant capital investments of \$4.4 billion in FY 1999 and \$4.0 billion in FY 2000 are scheduled that will influence the FY 2000 operating results. To be more aggressive in cost management, technology will continue to be used for automation and modernization projects affecting distribution, processing, and delivery areas. The capital investment plan also includes programs that will improve the quality of customer services and provide greater opportunity for revenue growth. Concurrently, infrastructure investments are necessary to support workload growth, repair or replace aging assets and provide the necessary information technology network. This investment strategy will achieve continuous, year-to-year performance improvements in all three of the Voice goal areas.

TABLE 4-10  
CAPITAL INVESTMENT PLAN  
PROJECTIONS: FY 1999-2000  
PROJECTED COMMITMENTS  
BY PROGRAM CATEGORIES  
(dollars in millions)

Category	1999	2000
Facilities	\$1,653	\$1,436
Automation/Mechanization		
Equipment	1,489	1,928
Vehicles	292	28
Retail Equipment	367	128
Postal Support Equipment	641	480
Total Capital Commitments	<u>\$4,442</u>	<u>\$4,000</u>

## 2 FACILITIES

Facility investments are necessary to satisfy capacity requirements dictated by the growth of population, mail volume and delivery points. There is also an aging inventory of facilities that require repair or replacement to sustain efficient service. Properly maintaining existing assets extends their useful lives, enhances working conditions for employees, and provides a business-friendly environment for customers.

The facilities commitment plan for FY 2000 is \$1.4 billion, which accounts for 35 percent of the total capital plan. Major facilities projects in the following locations account for \$414 million of that amount:

- Birmingham, AL
- Indianapolis, IN
- Cincinnati, OH
- Columbus, OH
- Greensboro, NC
- Kansas City, MO
- Los Angeles, CA
- Milwaukee, WI
- Oklahoma City, OK
- Ontario, CA
- Richmond, VA
- Royal Oak, MI
- Sioux Falls, SD
- Twin Cities, MN

New or expanded facilities comprise 70% of the facilities plan, and the remainder is for building improvements that extend the useful life of facility assets and support energy conservation and environmental compliance programs.

## 3 AUTOMATION/MECHANIZATION EQUIPMENT

Equipment technology will continue to be a key enabling element for the achievement of the Postal Service's FY 2000 performance targets. In FY 2000, a total of \$1.9 billion, or 48% of the total plan, will be used for automation and mechanization investments to enhance previously deployed technologies and expand the technology base available to support postal operations. While most of these

investments are directly targeted at the VOB goal of controlling costs, many will also contribute to improvements in the VOC service quality and ease of use goals.

### a. Letter Distribution

The optical character reading, barcode sorting, and remote encoding technology required to automate letter piece distribution is now deployed. By the end of FY 2000, a number of key programs will have been implemented to further enhance the capability of this equipment and expand the capacity of the system. The following letter distribution programs are included in the FY 2000 Capital Plan:

#### 1. Delivery Barcode Sorter Input Output

**Subsystem (DIOSS)**—a universal modification kit that will be added to Delivery Barcode Sorters (DBCSs). The DIOSS kits will add any combination of Input Subsystem, Output Subsystem, or Optical Character Reader capabilities to an existing DBCS machine. One of the main advantages of DIOSS is that it provides all three capabilities in a very small footprint with up to 300 sorting bins, depending on the DBCS configuration.

**2. DBCS Added Capacity**—provides a small multi-level high-speed barcode sorter, whose primary use is to finalize letter mail sortation to the carrier sector segment level using a two pass operation. Sector segment sortation places the mail in carrier walk sequence order to a street/block level. Implementation of the Advanced Barcode allows the DBCS to sort mail to the carrier's vehicle for delivery to customers. This program supports the additional capacity DBCS requirements and deployment of 300 machines.

**3. Remote Computer Reading (RCR) Script Recognition**—this program improves the capability of the RCR to read and resolve handwritten-addressed mail. Currently, the machines can read 25% of all handwritten addresses. The goal of this program is to increase the read rate to 50% of all handwritten addresses while maintaining existing throughput and error rate standards.



#### **b. Flats distribution**

Flats distribution technology will be improved and capacity will be expanded during FY 2000 and beyond. A major portion of the flats program involves the Next Generation Flat Sorting Machine, discussed above in the Program Management section.

#### **c. Parcel Distribution**

Over the next two years, parcel sorting capacity will be expanded and investments made to improve the performance of the technology. The following programs are included in the capital plan:

**1. Upgrade/Replace Parcel Sorting Machine/Sack Sorting Machine**—This program is intended to investigate and evaluate advanced sorter technologies for improving sort capacity, efficiency, and reliability.

**2. Small Parcel and Bundle Sorter (SPBS)**—The SPBS is an ongoing program to organize, mechanize and semi-automate the sortation of small parcel, bundled and Priority Mail into as many as 100 separations. By replacing labor-intensive manual sorting, the SPBS provides a projected return on investment of over 40 percent.

#### **d. Material Handling**

The emphasis in this area will be on the robotics and automated tray handling programs (discussed above in the Program Management section) designed to offset growing material handling labor costs. FY 2000 capital funding also includes the following program:

##### **1. Automatic Airline Assignment System**—

Designed to eliminate the current storage and manual identification of Air Contract Transportation Tags. This system reads a barcoded distribution label, weighs the mail, assigns transportation and places a machine-readable dispatch and routing barcode label on the sleeved and strapped letter mail tray or flat tub.

#### **4 VEHICLES**

The primary purpose of the vehicle capital program is to replace the mail transport and delivery fleet as it ages. Newer vehicles provide better driver safety, higher fuel efficiency, greater reliability, and lower maintenance costs. The FY 2000 capital funding plan for vehicles is \$28 million, which is less than one percent of the Plan. The vehicle category includes the following programs:

#### **a. Mixed Delivery and Collection Vehicles**

This program covers the purchase of 4500 two-ton vehicles. About one-half of the vehicles will use alternate fuel. A portion of the purchase will replace existing vehicles that have reached maximum service life and the balance will provide for new service requirements.

#### **b. Alternative Fuels**

Provides funds to comply with Environmental Protection Agency requirements through the conversion of existing equipment to alternate or bi-fuel capabilities. This program will meet federal regulations implemented pursuant to environmental laws.

#### **c. Carrier Route Vans**

In accordance with the Five-Year Vehicle Plan, these vehicles will replace aging non-long life vehicles by purchasing up to 9500 minivan-type vehicles. This program will improve consistency of delivery and reduce maintenance costs.

#### **5 RETAIL EQUIPMENT**

Capital investments for lobby, window, and self-service retail equipment enhance customer service by expanding the availability and convenience of products and services. Commitments of \$128 million are planned for FY 2000, which include the following programs:

#### **a. Self Service Vending Equipment**

This program provides for the purchase of 3,000 new vending machines, all of which have debit and credit payment capability except the single stamp machine. These machines are being purchased to bridge the gap in the field and to provide vending equipment to replace approximately 2,000 obsolete or non-repairable units. In addition, it adds approximately 1,000 machines to provide for new growth of facilities and postal stores.

#### **b. Business Customer Support System (BCSS)**

This program was initiated in April 1998 to continue the emphasis on the electronic business partnership by completing the development and implementation of a comprehensive business mail support system, including electronic information access, electronic documentation, electronic verification and acceptance, electronic transportation management, and electronic payment processing

functionality for all classes of mail received in bulk from major business mailers. BCSS includes the integration of existing programs that provide electronic business partnership functionality (i.e., Mailer Enterprise Integration, Multiple Entry Point Payment system) and also includes the redesign of the Permit system. BCSS will provide full administrative and functional support to approximately 2,000 bulk mail entry units nationwide and to some 400 detached mail units located in customer mail-production plants.

#### 6 POSTAL SUPPORT EQUIPMENT

Postal support investments provide the day-to-day equipment necessary to:

- Help employees perform their work more efficiently.
- Support an information technology infrastructure that enhances management effectiveness.
- Transmit voice, data, and images across the nationwide telecommunications network.
- Maintain facility and equipment assets.

Postal support equipment investment of \$480 million represents 12% of the total capital plan for FY 2000. This plan includes funding for the Point of Service and Associate Office Infrastructure programs (described above in the Program Management section) as well as the telephone system and postal information technology programs described below:

##### a. Telephone Equipment Installation

This activity will provide centralized telecommunications equipment, telecommunications service, and consulting services to the entire Postal Service. The activity will be accomplished by using Postal Service employees, local contracts and national contractors. Postal Service employees will provide administrative support to customers, and the local and national contractors will perform the actual implementations. With the continuing use of technology, this program will ensure that all field offices and Headquarters' units have modern, reliable telephone systems.

##### b. Internet Access

Postal Service customers increasingly expect to conduct business transactions and obtain information about postal products via the Internet and personal computers, with no crowds, no lines, and 7-day-a-week, 24-hour-a-day access.

##### c. Customer Service Terminal

This program will provide access to postal transactions, plus postal and other government agency information, 24 hours a day, 7 days a week, through interactive postal transaction terminals to be deployed to post offices and other public places.

##### d. Postal Explorer

This software package offers easy-to-use electronic versions of the Domestic Mail Manual and other postal reference documents. It includes a powerful search engine to locate topics and "rate calculators" to compute product and service prices. Postal Explorer software is available via dedicated or dialed Internet access to the Postal Service public web site, as well as on a CD-ROM for use on customers' computers.

## J. Verification and Validation: Ensuring Accuracy

A vast array of data and resources is available to aid in measuring success in meeting the various performance goals. Many of the data systems utilized, especially in the area of finance, have a series of internal controls imbedded within their procedures to safeguard the integrity of the results. Also, the General Accounting Office, the Office of the Inspector General (OIG), the Inspection Service, and certified public accounting firms retained by the Postal Service conduct independent ongoing reviews of Postal Service data and render periodic reports on their findings and recommendations. The OIG and Inspection Service Strategic Plans, FY 1998-2002, have been designed to parallel the Postal Service's Strategic Plan by providing a structure to support efforts to address the Voices of the Customer, the Employee, and the Business. In addition, many of the surveys cited below are conducted by independent firms retained by the Postal Service to ensure the integrity of the results.

The specific Postal Service systems and processes planned for verification and validation of the various *CustomerPerfect!* performance goals are listed below.

## **1 VOICE OF THE CUSTOMER GOALS**

### **a. Provide Timely Delivery**

Mail service performance results for overnight, 2-day, and 3-day First-Class Mail and Priority Mail are measured by the Transit Time Measurement System (TTMS), which is independently run by the accounting firm of PricewaterhouseCoopers. Within TTMS, First-Class Mail results are measured by EXFC and Priority Mail service performance is measured by the Priority End-To-End (PETE) system. These systems measure the mail piece from the time it enters the system until it is received in a home or small business and provide quarterly results of delivery performance. For Advertising Mail, the Advance System, administered by postal personnel, provides data on delivery timeliness and area coverage.

### **b. Consistency**

An index of scored responses to residential and business Customer Satisfaction Surveys (CSM-R and CSM-B) questions pertaining to the consistency of mail delivery, pickup, and collection times will be used. The Gallup Organization conducts these surveys, including data verification and data quality checks.

### **c. Accurate Service**

PricewaterhouseCoopers will modify its existing transit time measurement surveys to include questions for business and residential customers on the number of pieces received that were for the wrong address or were damaged. The contractor will utilize a quality checking process to assure the accuracy of this data.

### **d. Ease of Use**

Customer Satisfaction Measurement surveys containing questions relating to how easy it to do business with the Postal Service are conducted by the Gallup Organization. Gallup verifies, tabulates, and performs quality checks on the data and then forwards the data to the Postal Service. Responses to selected questions are combined at the Postal Service to develop an Ease of Use Index.

## **2 VOICE OF THE EMPLOYEE GOALS**

### **a. Improve understanding of employee issues and concerns**

A survey will be administered quarterly to a sample of employees to obtain information to enhance the workplace environment and improve relationships with employees. The Gallup Organization will conduct these surveys, including distribution, scoring and compilation of the results.

### **b. Ensure that each and every employee is given the knowledge, tools, training and encouragement to successfully meet the expectations for their positions:**

**1. Training in prescribed curriculum.** Two systems, the Local Employee Training System and the National Training Database, maintained by the Human Resources Department are used to record training hours and compare the data to training targets for both EAS and craft employees.

**2. Automation maintenance and operations proficiency.** The Overall Equipment Effectiveness indicator and associated process indicators are collected from all covered equipment after each run via the End of Run system. The data is uploaded on an accounting period basis to develop a summary report by type of equipment on a national, Area and site basis. The current system has been operating for more than a year.

**3. Retail unit/process proficiency.** Indicators of professional service and sales skills proficiencies are measured quarterly by Mystery Shopper surveys. Indicators for the financial components proficiencies will be measured by the Trust and Suspense System. Data will be summarized to develop baseline indicators at the Area level with a national roll-up.

**4. Bulk mail acceptance unit/process proficiency.** To assess employee proficiencies, the Opinion Research organization will be retained, and will use a Mystery Caller program to conduct employee surveys in the areas of technical knowledge, consistency and helpfulness. The Gallup Organization will summarize customer responses to surveys relating to technical knowledge, consistency, helpfulness and facility appearance. These data will provide a basis to assess areas for improvement and for the development of a bulk mail acceptance unit proficiency index baseline.

**5. City carrier, computerized forwarding system, and platform operations proficiencies.** Development of these indicators is scheduled for completion by FY 2000.

**6. Goal knowledge survey.** Each quarter the Gallup Organization will send questionnaires to a random sample of employees, to assess the extent to which information about unit goals and unit performance is being communicated. Responses will be tabulated and compared to the target.

**c. Improve employees' safety, security, and well-being.**

The Postal Service calculates its Lost Workday Injury Frequency per 200,000 workhours using the same industry-wide accepted criteria as most other large organizations. The National Accident Reporting System collects accident and injury data which are accumulated and available on Performance Cluster, Area, and National bases.

**3 VOICE OF THE BUSINESS GOALS**

**a. Overall VOB performance**

**1. Capital commitment achievement**—Financial records maintained by the Postal Service provide data relating to capital commitments. These records are subject to review by an independent certified public accounting firm as well as the OIG and Inspection Service.

**2. Economic Value Added (EVA)**—An integral part of the EVA process is an incentive payment system that rewards employees for improved financial performance, customer service, and employee commitment. It encourages employees to control expenses, reduce waste, improve products, and improve employee effectiveness. Operating results that form the basis for determining EVA pay-outs are subject to the internal controls of the various data systems. The calculations are reviewed by a certified public accounting firm during its annual financial audit of the Postal Service. Also, the Board of Governors has retained its own independent consultant to review and advise on EVA issues.

**3. Net income/contribution**—Financial performance results are summarized by the Postal Service and reviewed by an independent certified public accounting firm. Also, during the year the OIG and Inspection Service conduct various financial audits and internal control reviews to assess the integrity of financial records.

**b. Controlling Costs by Achieving Productivity Gains**

The FY 2000 budget reflects the productivity benefits resulting from controlling costs through decreasing rework and cycle time, process management, and the substitution of capital for labor. The data sources used to calculate Total Factor Productivity (TFP) and Labor Productivity are the same as those used to prepare the financial statements. Accordingly, the data are subject to normal internal controls and accuracy checks by the General Accounting Office, the Office of the Inspector General, the Inspection Service, and the certified public accounting firm engaged to audit the financial statements. Actual operating results achieved within established budget parameters would indicate that these cost reductions have been achieved.

**c. Keeping price increases below inflation**

New postage rates originally planned for late FY 1998 were implemented in January 1999. The last general rate increase occurred in January 1995, so a comparison of the postage increases to the rate of inflation for this time period would verify achievement of this target.

**d. Restoring original equity**

FY 2000 financial performance results summarized by the Postal Service will be reviewed by an independent certified public accounting firm. Also, during the year the OIG and Inspection Service will conduct various financial audits and internal control reviews to assess the integrity of financial records.



## **K. Challenges and External Factors: The Permanence of Uncertainty**

As was the case for FY 1999, changes in customer requirements, the evolution of new technologies, opportunities for growth in labor/management relationships, and ongoing efforts to structure legislative reform are continuing challenges which seem likely to affect the ability of the Postal Service to achieve its goals for FY 2000. These challenges and external factors are similar to those identified in the organization's Five-Year Strategic Plan, which described the need to change the basic Postal Service model. Indeed, in many ways these challenges are as reflective of the Postal Service's environment as they are of its internal activities.

Customer expectations and requirements, for example, will continue to be as changeable as the Postal Service's customers themselves. In the coming fiscal year, customers will continue to press the Postal Service to accelerate its application of technology to enhance the processing and delivery of their mail. Concurrently, customers will also continue to demand aggressive management of costs. For its part, the Postal Service will focus its efforts on delivering the optimum value to each customer in FY 2000.

In the realm of technology, as well, change will be a constant. Electronic alternatives, from e-mail to applications as yet unannounced, will continue to affect mail volumes. In particular,

First-Class correspondence, advertising, and remittances will be subject to diversion. Even as mail volume continues to grow, the mix of products within that volume will not remain constant, and the Postal Service will find it necessary to adjust its operations accordingly.

The 1998 labor negotiations and their aftermath mark the starting point of the path that the Postal Service and its workforce will pursue in the next few years. The journey seeks both employee and customer satisfaction, but those goals will not be reached without positive change.

Finally, efforts will continue to develop legislative reforms. There is growing agreement regarding the need for change in the structure established by the Postal Reorganization Act almost 30 years ago. In that time, the mission of the Postal Service has not changed—nor should it. The Postal Service is still charged with providing a fundamental, universal public service to the Nation, at fair and affordable prices. But, in order to fulfill that role in an increasingly complex and competitive environment, it is becoming obvious that the Postal Service needs the ability to price its offerings in response to rapidly changing market conditions, and to offer products and services with characteristics that compare favorably with changing alternatives. Postal services around the world are being refitted for more rigorous competition in a global marketplace. The course of legislative reform that will shape the Postal Service for the 21st century remains a work in progress.

# APPENDIX A

## Changes to Goals and Subgoals

### VOC GOALS AND SUBGOALS

FY 1999 Goal	FY 2000 Goal	Explanation for Change
Improve customer satisfaction by offering superior customer value in each market and segment that we target.	Earn customers' business in a marketplace where they have choices by providing them with world-class quality at competitive prices.	Changed to strengthen message that customers have choices and that we need to be competitive with the best in the world.
FY 1999 Subgoals	FY 2000 Subgoals	Explanation for Change
Timely delivery	Timely delivery	No change
Consistency	Consistency	No change
Accurate service	Accurate service	No change
Ease of use	Ease of use	No change
n/a	Explore customer needs segmentation as an alternative to product segmentation.	Recognize importance of accurate segmentation
n/a	Develop "Best Value" criteria based on Customer Value Analysis	Use a formal quantitative assessment of customer needs
n/a	Explore concept of customer loyalty for competitive products	Increase repeat usage of products

VOE GOALS AND SUBGOALS		
FY 1999 Goal	FY 2000 Goal	Explanation for Change
Improve employees' and organizational effectiveness by having the right people in the right place with the right tools at the right time to consistently provide superior customer value and ensure commercial viability in a dynamic environment.	Foster an inclusive and welcoming workplace consistent with Postal Service values of fairness, opportunity, safety, and security: where everyone is given the knowledge, tools, training, and encouragement to be successful; and where everyone is recognized for and takes pride in their participation in customers' and the Postal Service's success.	Existing goal perceived to reflect the voice of management more than the voice of the employee. Proposed new goal raises the overall workplace environment from a subgoal to the goal, and is success oriented.
FY 1999 Subgoals	FY 2000 Subgoals	Explanation for Change
Enhance workplace environment to improve relationships with employees.	Improve workplace relations by building leadership skills and behaviors.	Proposed subgoal focuses specifically on leadership's role in improving the workplace environment.
Ensure that employees demonstrate in the workplace the required proficiencies for their assigned work.	Ensure that each and every employee is given the knowledge, tools, training, and encouragement to successfully meet the expectations for their positions.	Proposed subgoal focuses on the support that employees need to be successful. Responds to VOE survey that indicates only 20% of respondents believe poor performance is dealt with appropriately.
Anticipate complement needs and deploy people to meet organizational requirements.	n/a	Old Subgoal appears to be more of a driver of VOC and VOB success, rather than a subgoal for workplace environment
Ensure a safe work environment	Improve employee safety, security, and well-being	Subgoal reworded to add security and well-being to the previous focus on safety
n/a	Improve understanding of employee issues and concerns	Recognizes the need to continue to work to turn VOE into a true Voice of the Employee
n/a	Ensure an inclusive and fair environment with opportunities for all employees	Recognizes need to continue to deal with changing needs and expectations of a diverse work force

# VOB GOALS AND SUBGOALS

FY 1999 Goal	FY 2000 Goal	Explanation for Change
Improve financial performance to assure our commercial viability as a service provider for the worldwide movement of messages, merchandise and money.	Generate financial performance that assures commercial viability as a service provider in a changing competitive market place and generate cash flow to finance high yield investments for the future while providing competitively priced products and services.	Expanded to provide clarity on total business requirements.
FY 1999 Subgoals	FY 2000 Subgoals	Explanation for Change
Business unit financial performance	Overall VOB performance	Editorial change
Net income from existing or enhanced products and services.	n/a	The overall VOB performance subgoal is comprehensive in that it includes net income from all products and services, whether they are existing, enhanced or new.
Net income from new products and services.	n/a	This is not a separate subgoal because it has been integrated into the overall VOB performance subgoal.
Controlling costs through re-engineering, decreasing rework and cycle time, process management, and substituting capital for labor.	n/a	This subgoal is redundant because it is included in the next subgoal covering all productivity gains.
Controlling costs by achieving productivity gains.	Controlling costs by achieving productivity gains.	No change
Use pricing as a competitive tool while keeping rate increases below rate of inflation.	Keep rate increases below rate of inflation.	Editorial change
Achieving positive equity.	Restoring original equity.	Revised subgoal is more closely aligned with the requirement of BOG Resolution 95-9



## APPENDIX B

# *CustomerPerfect!* Improvement Projects

The 39 improvement projects (“outcomes” in Baldrige terminology) associated with the major improvement priorities identified in a recent Baldrige assessment of the Postal Service’s management system are listed below.

## A. People

The following tasks for improving communication and relationships with employees and the bargaining units have been identified:

- Promote a better working relationship with unions and management associations.
- Engage employee organizations into planning process.
- Establish a systematic approach in conjunction with operating functions to proactively engage employee organizations in dialogue about new processes and programs that support performance improvement.
- Develop a new data tracking system to assist management in identifying, analyzing and developing solutions to disputes in the workforce.

## B. Human Resource Strategy

Seven key outcomes that will address the human resource strategy finding have been identified:

- Develop and implement strategies to build effective leadership skills and behaviors throughout the organization.
- Incorporate human resource capabilities into the planning process.
- Develop strategies and action plans to address key human resources related challenges.
- Ensure that employees demonstrate the knowledge, skills, and abilities required to achieve the principal accountabilities of their position.

- Provide a more integrated approach to the development of training products, to include providing more adequate initial training.
- Improve workforce diversity through leadership, responsibility, and management accountability.
- Enhance the workplace through initiatives focused on improving employee’s sense of safety and well-being.

## C. Process Management

The Postal Service is pursuing the following ten process management outcomes:

- Develop a process documentation and measurement infrastructure for standard core processes.
- Document an Enterprise Map for key core and enabling processes.
- Identify, document, and prioritize enabling processes, measure them, and develop systematic tracking and reporting methods.
- A systematic process for national roll-out of customer enhancements via the account management process.
- Establish target performance levels for internal process indicators.
- Establish in-process control measures for real-time process control.
- Establish mechanism to share learnings from quality improvement examples and replication efforts, and avoid duplicative efforts.
- Provide a process and procedures for delivering non-financial in-process indicators to the process owners and operators.
- Standardize the data recording and reporting for current and future indicators.
- Migrate from external collection of data to using data generated directly from within the process.

## D. Comparative Data

The Postal Service's strategy for identifying, collecting, and using comparative data with which to evaluate performance will be supported by the following three planning outcomes:

- Extend efforts to compare customer satisfaction levels with competitors and other service providers.
- Establish a systematic Postal Service-wide benchmarking approach to determine needs and priorities and sources for comparative data.
- Foster the use of external comparative information when establishing targets for use in improving company performance.

## E. Alignment of Direction/Other

The following projects are planned to respond to changes in the external environment and to other process improvement opportunities mentioned in the Baldrige Assessment:

- Affirm the identity of the Postal Service relative to a public service or a private business-like entity.
- Develop action plans to address defined strategies.
- Establish targets for key societal responsibilities
- Incorporate supplier and partner capabilities in the planning process.

- Incorporate customer requirements in the planning process.
- Incorporate information from the external marketplace into the planning process.
- Develop strategies to mitigate risk in the Correspondence and Transactions market.
- Develop a more focused approach for segmenting customers.
- Develop an effective process for documenting customer requirements and assessing the relative importance of key products and service features.
- Develop an approach for determining and deploying customer contact requirements to improve performance.
- Improve the extent and rigor with which customer service issues are tracked, recorded, analyzed, and resolved.
- Increase use of electronic information for comparative analysis of related data to provide greater insight into business performance.
- Expand deployment of Supplier and Management Tracking process to include key suppliers.
- Establish plan to aggressively address on-time performance of air transportation carriers.
- Develop and implement an approach for deploying catchball (resource allocation priorities) to the Performance Cluster level.